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April 9, 2012

Auto Outlook: Buyers choosing gas-sippers

AL SWANSON, United Press International

With unleaded regular near or exceeding \$4 a gallon in most of the country, some U.S. auto executives have already proclaimed 2012 the year of the car as consumers scrap or trade-in aging, repair-prone vehicles for new more fuel-efficient passenger cars and smaller SUVs.

"Higher gas prices are spurring people to buy vehicles because they want vehicles that get better fuel economy," Ford Motor Co. Americas President Mark Fields told The Detroit News ahead of the New York International Auto Show.

High gasoline prices may be helping the auto industry to its best year in recent memory with sales on pace to top 15 million vehicles on an annual basis.

Fields said Ford is adding shifts at assembly plants in Chicago and Michigan to keep up with anticipated demand for new vehicles like the 2013 Lincoln MKZ, which debuted in New York.

"We had always expected the industry to come back," he said, "and we're adding a number of shifts."

Ford sold 223,418 vehicles last month, a 5 percent improvement, for its best U.S. March sales since 2007. The story was better for General Motors and Chrysler, which saw March sales rise 12 percent and 34 percent, respectively.

GM said a dozen of its vehicles EPA-rated to get at least 30 mpg on the highway had combined sales of more than 100,000 units in March.

"Three years ago, about 16 percent of the vehicles GM sold achieved at least 30 mpg on the highway. Today, that number is about 40 percent and we have more new fuel-economy leaders on the way, including the Chevrolet Spark, Cadillac ATS and Buick Encore," said GM North America President Mark Reuss in a statement.

In 2011, GM said 40 percent of its new vehicles had four-cylinder engines and it plans to double the number of vehicles offering turbocharged engines from four to eight in the 2013 model year.

"Automakers who invest in more efficient vehicles are investing wisely," said a Carol Lee Rawn, transportation director of sustainability advocate Ceres, which released a report by Citi Investment Research and Analysis.

"Given the volatility of gas prices -- and the likelihood that they'll head through the roof again -- it's clear that customers want better fuel economy and delivering it means a better bottom line for the industry," she said.

The report, "Fuel Economy Focus: Perspectives on 2020 Industry Implications," found profits of U.S. automakers are likely to grow more than 6 percent thanks to new proposed national gas mileage and emissions standards that gradually raise Corporate Average Fuel Economy to 54.5 mpg between 2017 and 2025. The report estimates that could translate to an extra \$2.4 billion profit for American automakers in 2020 with industrywide profits rising 5.3 percent or \$4.76 billion.

The increase in mileage standards could boost sales of GM, Ford and Chrysler by 4 percent, or 300,000 vehicles, the report concluded.

"Although the automotive industry as a whole will benefit by meeting the new standards, the Detroit Three will enjoy the highest relative profits boost," Oakland University School of Business professor Walter **McManus**, who did the report's sales and profits analysis, said in a release.

"Automakers today are already working on the improvements to the internal combustion engine and overall vehicle design to get us to 54.5 mpg," said Alan Baum, whose firm conducted the sector analysis. "Turbocharged direct injection, advanced transmissions, electric power steering, low-rolling resistance tires, turbocharging, variable valve lift and timing are available now and they continue to improve.

"These technologies are not only cost-effective, but also make for better performing vehicles than those currently on the market."

Most popular Hyundai models in short supply

South Korean automaker Hyundai is worried about running short of its two best-selling cars, the fuel-efficient Elantra and Sonata sedans.

Hyundai sales jumped 13 percent in March as buyers gobbled up the cars, cutting inventories of the compact Elantra to just one day and 25 days for the Sonata, the Los Angeles Times said.

John Krafcik, chief executive officer of Hyundai Motor America, said the company's assembly plant in Montgomery, Ala., was running at full capacity, adding that the supply of U.S.-made Elantras is "pretty much tapped out." He said he hopes imports of vehicles manufactured overseas will help meet U.S. demand.

With fuel prices rising steadily in March, Hyundai had the industry's best average fleet fuel economy of any car company at 28.2 mpg.

Toyota's March sales were up 15 percent and Japan's Nissan saw a 13 percent monthly sales gain, helped by soaring demand for its mid-sized Altima sedan. A redesigned 2013 Altima hits showrooms later this year.

Bucking the trend, slowing sales of the one-time segment leading Honda Civic and Accord sent American Honda Motor Co.'s March sales down 5 percent.

German automakers keeping pace

Volkswagen saw its best March since 1973 with sales up 35 percent over March a year earlier, and buyers sent sales of luxury brands BMW and Mercedes-Benz up 18 percent and 11 percent, respectively, during the month.

InAutoNews said BMW sold 52,616 vehicles in the first quarter of 2012 after succeeding Lexus as the top-selling luxury brand in the United States last year. Lexus held the luxury crown from 1999 to 2010.

Mercedes-Benz unveiled the seven-passenger, 362-horsepower, twin-turbo, 4.7-liter V-8, 2013 Mercedes GL-Class sports-utility vehicle -- based on the Mercedes M-Class -- in New York.

Chevy to jolt the Volt

It's been an up-and-down year for sales of the plug-in electric Chevrolet Volt. Now it's looking up again.

General Motors suspended production of the Volt and its sibling Opel Ampera for five weeks at the Detroit Hamtrack Assembly Plant March 19, but after selling 2,289 Volts in March, decided to resume production a week earlier than planned on April 23.

"We're doing it because we sold a lot," GM President of North America Mark Reuss told The Detroit News.

GM Chairman and Chief Executive Officer Dan Akerson has said Chevy needs to consistently sell 2,000 to 3,000 of the \$41,000 Volts a month to make the high-tech plug-in hybrid a success. GM sold 603 cars in January and 1,023 in February.

The Ampera, the European version of the Volt, had 7,000 pre-orders.

The extended range hybrid can travel about 35 miles on a single charge before a gasoline-powered generator comes on producing electricity to run the car and recharge its batteries.

Rival Nissan hopes to sell 20,000 of the all-electric Leaf in the United States this year and is upgrading 2013 models with fancy interiors and improved climate control systems.

Return of the Viper

Ralph Gilles, head of Chrysler's gearhead SRT brand announced the return of the iconic Viper sports car to the American Le Mans racing circuit.

The 2013 Viper SRT (Street and Racing Technology) is still a wicked two-seater with a 640-horsepower V-10 engine, 40 more horses than previously, and a top speed of 206 mph. The mostly hand-built redesigned car weighs in at 3,297 pounds -- about 100 pounds less than the 2010 model, the last year one was produced.

Gilles said Chrysler wasn't sure it would revive Viper but enthusiasts and fans asked for it.

"I think (the Viper) represents the soul of the company," he said at the New York International Auto Show. "The car is a rock star all by itself."

Gilles said Chrysler hopes to sell about 2,000 of the \$80,000 roadsters a year globally.

About 26,000 of the 30,000 Dodge Vipers built since 1991 are still on the road.

---- INDEX REFERENCES ---

COMPANY: AMERICAN HONDA MOTOR CO INC; GENERAL MOTORS CO; NISSAN MOTOR CO LTD; VOLKSWAGEN AG; ALTIMA RESOURCES LTD; HONDA MOTOR CO LTD; BAYERISCHE MOTOREN WERKE AG; CHRYSLER GROUP LLC; HYUNDAI MOTOR AMERICA; LOS ANGELES TIMES INTERNATIONAL LTD; FORD MOTOR CO; TOYOTA MOTOR CORP; GENERAL MOTORS DO BRASIL LDA; GENERAL MOTORS DE ARGENTINA SRL; GENERAL MOTORS LTD; GENERAL MOTORS CO; GENERAL MOTORS EGYPT S AE; MOTORS LIQUIDATION CO; GENERAL MOTORS DE MEXICO S DE R L DE CV

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Land Transportation (1LA43); Automobiles (1AU45); Automotive Models (1AU61); Automotive (1AU29); Transportation (1TR48); Passenger Transportation (1PA35))

REGION: (USA (1US73); U.S. Midwest Region (1MI19); U.S. Mid-Atlantic Region (1MI18); Americas (1AM92); New York (1NE72); North America (1NO39); Michigan (1MI45))

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OTHER INDEXING: (GENERAL MOTORS) (Walter McManus; Viper Ralph Gilles; John Krafcik; Ralph Gilles; Alan Baum; Mark Reuss; Lee Rawn; Dan Akerson; Mark Fields)

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April 5, 2012

Study says light vehicle MPG rules will boost profits, fuel savings

Sean Kilcarr, senior editor

A new study conducted by the sustainability advocacy organization Ceres and Citi Investment Research, a division of banking giant Citigroup, concludes that federal light vehicle fuel economy/greenhouse gas (GHG) emission regulations rolled out last year and due to be finalized late this summer will not only cut U.S. oil imports and consumption, but will provide automakers – especially the "Detroit Three" – with increased sales and profits.

"Out of the 288 scenarios we examined for this study, in terms of the technological cost to comply with the rules, fuel prices, etc., automakers stand to profit in 263 of them," noted Walter **McManus**, an economics professor with Oakland University's school of business administration who previously spent nine years with General Motors during his private sector career.

The new report, Fuel Economy Focus: Perspectives on 2020 Industry Implications, evaluates the impact that meeting the proposed fuel economy/GHG standards would have on the car industry in the year 2020.

McManus noted in a conference call with reporters that, under the most likely of those 288 scenarios considered, automakers are looking at 570,000 units in extra sales and \$4.76 billion in extra profit due by 2022 due to the new rules, adding that the "Detroit Three" – Ford Motor Co., General Motors, and Chrysler – stand to benefit the most from a monetary perspective, capturing \$2.44 billion of those extra profits.

As a group Ford, Chrysler, and GM would also likely see an improvement over baseline vehicle sales by about 4% or 300,000 vehicles, while foreign automakers would likely record a 3% sales uptick, according to the report. Sales would increase because with increased fuel economy the overall cost of operating a car will go down and, consequently, consumers will have more spending power to buy more vehicles or more expensive vehicles, the authors said.

"The reason we see these increased benefits for American automakers is because compared to foreign automakers they are currently more heavily invested in lower mileage trucks and cars," **McManus** said. "Under these standards the 'Detroit Three' would have a greater potential to add customer value to those vehicles with improved fuel economy."

Dan Meszler, president of Meszler Engineering Services – who, along with **McManus** and Alan Baum, president of Baum and Associates, authored this report – told Fleet Owner that the research he conducted indicates the fuel saving technologies automakers plan to deploy to meet the new fuel economy rules will still profit them with profits and

motorists with a monetary benefit from the fuel savings they provide even if gasoline prices fell to \$1.50 per gallon.

"We estimate that the average additional cost vehicle owners will see by 2020 [when the rules are fully implemented] will be \$1,050 extra per vehicle," he explained.

Baum stressed that this study examined "the entire light spectrum" in his words, encompassing pickup trucks, sport utility vehicles (SUVs), and vans, along with a variety of car models.

"Different fuel-saving technologies will be deployed for the different [model] segments, but all models of vehicles are going to experience fuel savings," he noted.

Turbocharged direct injection, advanced transmissions, electric power steering, low-rolling-resistance tires, turbo charging, variable valve lift and timing are but some of the technologies now in play to help improve the internal combustion engine and overall vehicle in order to reach the 54.5 miles per gallon standard, Baum added -- to which are being added diesel engines, electric hybrid systems, and others.

"These technologies are not only cost-effective, but also make for better performing vehicles than those currently on the market," he said.

In particular, Baum pointed to Ford's latest iteration of the F-150 pickup equipped with the EcoBoost V6 engine. "There are selling far more of these models with the EcoBoost engine, which provides much higher fuel economy than even laymen believed possible in this vehicle segment," he explained.

Indeed, Ford noted in its several of its sales updates last year that the EcoBoost is outselling its traditional V8 engine for the F-150 by a wide margin, with the 3.5L EcoBoost and 3.7L V6 engines representing 57% of F-150 retail sales in September 2011 alone.

Carol Lee Rawn, transportation director for Ceres, noted that Ford's fuel economy innovations with the F-150 is but one example of how automakers are making what she called "wise investments" in more efficient vehicles.

"Given the volatility of gas prices -- and the likelihood that they'll head through the roof again -- it's clear that customers want better fuel economy and delivering it means a better bottom line for the industry," Rawn added.

Meszler stressed that one of the most important findings from this report is that the added technologies required to meet the proposed fuel economy improvements are cost-effective for vehicle owners.

"Even if gasoline prices dropped to as low as \$1.50 per gallon in 2020, money saved during vehicle use would fully offset the cost of added fuel economy technology," he pointed out. "Since gasoline prices are over twice that right now, it's likely that consumer savings on fuel purchases will far outweigh the additional money consumers will spend on a new car."

---- INDEX REFERENCES ---

COMPANY: FORD MOTOR CO; BAUM AND ASSOCIATES; CHRYSLER GROUP LLC; GENERAL MOTORS CO; CITIGROUP INC

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Automobiles (1AU45); Land Transportation (1LA43); Oil & Gas (1OI76); Automotive (1AU29);

Gasoline (1GA40); Transportation (1TR48); Automotive Fuels (1AU95); Automotive Models (1AU61); Energy & Fuel (1EN13); Passenger Transportation (1PA35))

REGION: (Americas (1AM92); North America (1NO39); U.S. Midwest Region (1MI19); Michigan (1MI45); USA (1US73))

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U-Wire
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February 8, 2012

Column: Even without reaching 54.5 mpg, fuel economy improvements a good thing

Depending on what news you were reading, Aug. 27 might be a strong indicator as to whom you will vote for come November. The opening day of the Republican National Convention, President Barack Obama announced he finalized his plan to raise Corporate Average Fuel Efficiency to 54.5 mpg by 2025.

In the works since 2009, by the end of 2012 automakers are to have an average fleet fuel economy of 28.7 mpg; currently, they all are exceeding that standard at 28.9 mpg. Vehicle gas emissions are estimated to drop 50 percent while reducing fuel consumption by approximately 40 percent by 2025. According to the White House, \$1.7 trillion (or as Obama puts it, "that's trillion, with a 't.'") will be saved by families in gas costs alone and \$8,000 through the lifetime of each vehicle. By 2016 the industry is planned to be up to an average of 35.5 mpg.

Obama, alongside all major automaker CEOs, stated in 2011: "This agreement on fuel standards represents the single-most important step we've ever taken as a nation to reduce our dependence on foreign oil. ... The companies here today have endorsed our plan to continue increasing the mileage on their cars and trucks over the next 15 years. We've set an aggressive target, and the companies here are stepping up to the plate."

Mind you, this was an agreement struck between the Obama Administration and automakers, as Obama put it: "This agreement was arrived at without legislation. You are all demonstrating what can happen when people put aside differences -- these folks are competitors, you've got labor and business, but they decided, we're going to work together to achieve something important and lasting for the country."

A nonprofit organization called Ceres was teamed up with Citi Investment Research to conduct a study to assess the economic implications of such a massive plan. The first thing that was noticed was that "higher standards mean higher profits." It also found that Obama's plan would lead to 484,000 new jobs in 49 states.

Walter **McManus**, research professor at Oakland U., analyzed the data. He found that by 2020, \$2.44 billion will be brought into U.S. automakers just because of the increased standards and that all automakers will see an increase of \$4.76 billion. He also proclaimed all American automotive industries will then become more competitive internationally, which is important for our need to start selling more goods overseas.

Those who claim the technology is not there are simply misinformed. Mitt Romney's campaign representative Andrea Saul said: "Gov. Romney opposes the extreme standards that President Obama has imposed, which will limit the choices available to American families. ... The president tells voters that his regulations will save them thousands of dollars at the pump but always forgets to mention that the savings will be wiped out by having to pay thousands of

dollars more upfront for unproven technology that they may not even want."

Alan Baum of Baum & Associates (a business that provides research and analysis for the automotive and related industries) says: "There is a whole variety of technology to meet the standard. ... And the primary method will be the internal combustion engine. The automakers understand that and they have technology to allow for that." He stressed that the improvement will not remove any well-selling vehicles from the fleets, including high end sports cars.

Dan Meszler of Meszler engineering says that the cost of the automotive technologies would be outweighed heavily by the savings consumers make at the pump. "The break-even point is about \$1.50 a gallon," he says, according to his calculations. Which, in my opinion, we will never see again. He went on to say, "What [the Corporate Average Fuel Efficiency] does is floats all boats."

Some might argue, myself included, that a 54.5 mpg average standard is unattainable in 15 years time. But that argument is moot because any standard increase will be beneficial for this economy, all families and the environment.

Not only has Romney stated his disapproval of this plan, but he has stated he will do what he can to reverse it should he become president. The greatest thing you can do to help with this issue is either vote for a reelection of Obama or do what you can to convince Romney of the dangers of reversing the Corporate Average Fuel Efficiency plan.

I am proud to be a part of a university that goes through such great practice in becoming more energy efficient. Supporting not just Obama's plan but this trend is incredibly important -- and after being informed of the facts and numbers, it becomes a no-brainer.

(Distributed for UWire via M2 Communications (www.m2.com)) .PUB 430 .DATE February 8, 2012 .TITLE UWIRE .PRICEDATE NOT APPLICABLE .DAY

---- INDEX REFERENCES ----

COMPANY: BAUM AND ASSOCIATES; M2 COMMUNICATIONS

NEWS SUBJECT: (Government (1GO80); Government Institutions (1GO90); U.S. President (1US75); Executive Bodies (1EX50))

INDUSTRY: (Automotive Fuels (1AU95); Automotive Models (1AU61); Environmental Solutions (1EN90); Transportation (1TR48); Low Emission & No Emission Vehicles (1LO79); Environmental (1EN24); Automotive Environmental Initiatives (1AU68); Automotive (1AU29); Oil & Gas (1OI76); Automotive Technology (1AU48); Passenger Transportation (1PA35); Energy & Fuel (1EN13); Automobiles (1AU45); Land Transportation (1LA43))

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OTHER INDEXING: (Barack Obama; Mitt Romney; Alan Baum; Walter McManus; Andrea Saul; Dan Meszler)

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February 7, 2011

Section: Editorial

CALIFORNIA STANDARDS WON'T HARM AUTO DEALERS

Chuck Frank and Adam Lee, Special to the Mercury News

Auto dealers from across the country are in San Francisco for the National Automobile Dealers Association Convention & Expo to discuss our industry and where it is headed. We share the association's mission to champion policies that benefit its members and the auto industry. However, we disagree with its position that California's landmark greenhouse gas standards for new cars and trucks will harm its members.

We also opposed NADA's petition in federal court to overturn California's waiver, which the Environmental Protection Agency granted in 2009 allowing implementation of the state's landmark tailpipe standards, as well as the association's ongoing efforts to block EPA authority to set greenhouse gas standards.

California's standards helped create the momentum to finally raise fuel economy standards for the nation. Standards -- be they fuel economy or safety -- have never hurt sales or profits. Setting a standard that will create the cleaner cars that consumers want will be good for our bottom line.

Automakers use the same stale arguments repeatedly to oppose standards -- from seat belts, catalytic converters and safety standards to fuel economy and now greenhouse gas standards. The regulations did not spell disaster for the American auto industry. Instead, the industry has pushed itself to the brink because it failed to build the vehicles consumers scramble for when gas prices skyrocket.

Without an enforceable standard, our industry may repeat past mistakes.

Through its new advanced vehicles, our industry is proving that the technology exists to meet higher standards. Variable valve timing, engine shut-off, direct injection, hybrids, plug-in electrics, improved aerodynamics, six- and seven-speed automatic transmissions, strong lighter-weight materials and clean diesel technologies are already in use.

Dr. Walter **McManus**, director of automotive analysis at the University of Michigan's Transportation Research Institute, recently found that boosting the average federal fuel economy to 43 miles per gallon by 2020 could cause American consumers to buy 1 million more vehicles than they would have otherwise.

When **McManus** talks, the American auto industry should listen. In 2005 he predicted that over-reliance on inefficient vehicles could cost the Big Three billions and tens of thousands of jobs.

Some argue the recent uptick in SUVs sales shows consumers don't care about fuel economy. This is untrue. Today's SUVs get nearly twice the mileage of their gas-guzzling cousins and consumers are demanding even more.

When you break it down by segment and see the models consumers are actually buying to meet their needs, the SUVs with the highest fuel economy, like the Chevy Equinox, are selling faster than less efficient vehicles. As for advanced vehicles like the Volt and Leaf, Chevy and Nissan are increasing production because of high demand.

Clean car standards will not make consumers buy cars they do not want. It will ensure that the cars they do want are cleaner and get much better mileage. In addition to performance and comfort, consumers now demand higher fuel economy in all the cars they drive.

America is about independence and freedom. Americans love cars, trucks and SUVs, and we are honored to have been in the business of selling them. If our vehicles got 40, 50 or even 60 miles per gallon, we all would love them even more.

---- INDEX REFERENCES ---

COMPANY: EUROPEAN PATENT OFFICE; NISSAN; ADAMASV LIKVIDACII; C; CALIFORNIA GENERAL BANK N A; LEE AUTO MALLS; AL DAR ASSET MANAGEMENT (ADAM) CO; EURO PHYSICAL ACOUSTICS SA; EPA; NISSAN OF FIFE LLC; NATIONAL AUTOMOBILE DEALERS ASSOCIATION; ADAM INC; CALIFORNIA RADIATION THERAPY MANAGEMENT SERVICES INC; CALIFORNIA BAPTIST FOUNDATION; CALIFORNIA NANOTECHNOLOGIES CORP; ECONOMIC PLANNING ASSOCIATION; CALIFORNIA ENGELS MINING CO

NEWS SUBJECT: (Legal (1LE33); Economics & Trade (1EC26); Regulatory Affairs (1RE51); Environmental Law (1EN88))

INDUSTRY: (Automotive (1AU29); Oil & Gas Regulatory (1OI37); Automotive Dealers (1AU53); Automobiles (1AU45); Oil & Gas (1OI76); Automotive Retail (1AU31); Land Transportation (1LA43); Transportation (1TR48); Energy & Fuel (1EN13); Passenger Transportation (1PA35); Environmental Regulatory (1EN91); Automotive Regulatory (1AU33); Transportation Regulatory (1TR42); Automotive Fuels (1AU95))

REGION: (North America (1NO39); USA (1US73); Americas (1AM92); U.S. West Region (1WE46); California (1CA98))

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OTHER INDEXING: (ADAM; CALIFORNIA; CHEVY; CHEVY EQUINOX; CHUCK; ENVIRONMENTAL PROTECTION AGENCY; EPA; LEE AUTO MALLS; NATIONAL AUTOMOBILE DEALERS ASSOCIATION; NISSAN; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE; VOLT) (Automakers; HARM AUTO; Leaf; McManus; Variable; Walter McManus)

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January 26, 2011

Section: MONEY

Fuel rules may boost auto sales
Expert says higher standards will pay off

Greg Gardner USA TODAY

The Detroit Three will spend significantly to comply with tougher fuel-economy standards, but will get more sales and profitability bang for their bucks than their Asian and European rivals, a University of Michigan researcher said Monday.

Walter **McManus**, director of automotive analysis at the university's Transportation Research Institute, looked at what the impact on companies would be of boosting the average fuel-economy mandate to 43 miles per gallon by 2020. He presented his findings on a conference call hosted by Citi Investment Research.

Federal rules already will require each manufacturer to boost its average fuel economy to 35.5 mpg by 2016. Currently, each company's passenger cars must average 27.5 mpg. The standard for light trucks is 20.7 mpg.

The Obama administration has proposed a standard as high as 62 mpg by 2025, but a final action for 2017 through 2025 is not expected until 2012.

McManus made these assumptions in his study:

*Gas prices will average \$4 a gallon between now and 2020.

*Annual industry sales will recover to about 16.3 million vehicles in 2020.

*Every maker complies with the 2016 standard.

*Plug-in hybrids and electric vehicles will be less profitable than improved gas-engine vehicles.

Because the higher standards will cause makers to give consumers more technologies from which to choose, **McManus** forecasts Americans will buy 1 million, or 6%, more vehicles than they would without the higher mileage mandate.

McManus predicts the Detroit Three will sell 60% of that increase, which is significantly more than their combined U.S. market share of 45% in 2010.

He also said their profitability gain will be greater. **McManus** estimated that the industry will see \$9.1 billion in additional profit because the increased sales will more than offset the cost of the technology to meet the higher mandate -- and that about \$5.1 billion of that will go to GM, Ford and Chrysler.

By meeting the standards, **McManus** said, the domestic automakers will eliminate the existing fuel-economy gap with foreign makers.

Meanwhile, the U.S. Transportation Department and Environmental Protection Agency and California announced a deal late Monday to propose their new fuel-economy standards for 2017-25 at the same time -- by the first of September.

California had threatened to go its own way and propose its own standards by March 1.

Automakers who supported the deal for the current national standard that was accepted by California had feared a patchwork of standards later that would complicate vehicle planning and add costs.

Gardner also reports for the Detroit Free Press

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COMPANY: CHRYSLER DE MEXICO SA DE CV; FORD MOTOR COMPANY BRASIL LDA; GREEN MEDICINE AB; UNIVERSITY OF MICHIGAN (THE); FORD WERKE GMBH; FORD MOTOR COMPANY (AUSTRIA) GMBH; ROY OBRIEN INC; FORD MOTOR COMPANY SA DE CV; CABINET GINESTIE MARGELLAN PALEY VINCENT; MOTORS LIQUIDATION CO

NEWS SUBJECT: (Sales & Marketing (1MA51); Economics & Trade (1EC26); Sales (1SA20); Business Management (1BU42))

INDUSTRY: (Automotive (1AU29); Automobiles (1AU45); Oil & Gas (1OI76); Automotive Retail (1AU31); Automotive Sales & Registrations (1AU85); Land Transportation (1LA43); Transportation (1TR48); Energy & Fuel (1EN13); Passenger Transportation (1PA35); Automotive Fuels (1AU95))

REGION: (North America (1NO39); U.S. Midwest Region (1MI19); USA (1US73); Americas (1AM92); U.S. West Region (1WE46); California (1CA98); Michigan (1MI45))

Language: EN

OTHER INDEXING: (CHRYSLER; CITI INVESTMENT RESEARCH; ENVIRONMENTAL PROTECTION AGENCY; FORD; GM; TRANSPORTATION RESEARCH INSTITUTE; US TRANSPORTATION DEPARTMENT; UNIVERSITY OF MICHIGAN) (Gardner; McManus; Obama; Walter McManus)

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January 25, 2011

Detroit 3 to come out ahead in meeting fuel standards
Greg Gardner
Detroit Free Press

Jan. 25--The Detroit Three will spend significantly to comply with tougher fuel economy standards, but they will get more sales and profitability bang for their bucks than their Asian and European competitors, a University of Michigan researcher said Monday.

Walter **McManus**, director of automotive analysis at U-M's Transportation Research Institute, looked at the impact of boosting the average fuel economy to 43 m.p.g. by 2020. He presented his findings during a conference call hosted by Citi Investment Research.

The federal government requires each manufacturer to boost its average fuel economy to 35.5 m.p.g. by 2016. Currently, each company's passenger cars must average 27.5 m.p.g. The standard for light trucks is 20.7 m.p.g. The Obama administration has proposed raising the CAFE standard to as high as 62 m.p.g. by 2025, but there will be much debate before that becomes law.

McManus made the following assumptions in his study:

Because consumers will have more technologies from which to choose, **McManus** forecasts that Americans will buy 1 million, or 6%, more vehicles than they would without the higher CAFE requirements. **McManus** predicts the Detroit Three will sell 60% of that increase, which is significantly more than their combined U.S. market share of 45% in 2010.

The news is even better, **McManus** estimated, for profitability. While the industry will see \$9.1 billion in additional profit because the increased sales volume will more than offset the cost of the technology, about \$5.1 billion will go to GM, Ford and Chrysler.

By meeting the standards, **McManus** said, the domestic automakers will eliminate the existing fuel economy gap.

Meanwhile, California, a state that sets its own fuel-economy standards for cars and trucks sold there, said Monday it will issue a rule for model years 2017 to 2025 in September, at the same time as the U.S. government, rather than in March.

The U.S. Transportation Department and Environmental Protection Agency announced the decision to coordinate

efforts in an e-mailed statement. The Alliance of Automobile Manufacturers, a group representing companies including Ford and Toyota, praised the decision.

Contact Greg Gardner: 313-222-8762. Bloomberg News contributed to this report.

---- INDEX REFERENCES ---

COMPANY: CHRYSLER DE MEXICO SA DE CV; FORD MOTOR COMPANY BRASIL LDA; GREEN MEDICINE AB; UNIVERSITY OF MICHIGAN (THE); CALIFORNIA NANOTECHNOLOGIES CORP; CALIFORNIA BAPTIST FOUNDATION; FORD WERKE GMBH; FORD MOTOR COMPANY (AUSTRIA) GMBH; ROY OBRIEN INC; FORD MOTOR COMPANY SA DE CV; CABINET GINESTIE MAGELLAN PALEY VINCENT; MOTORS LIQUIDATION CO

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OTHER INDEXING: (AUTOMOBILE MANUFACTURERS; BLOOMBERG NEWS; CALIFORNIA; CHRYSLER; CITI INVESTMENT RESEARCH; ENVIRONMENTAL PROTECTION AGENCY; FORD; GM; TRANSPORTATION RESEARCH INSTITUTE; US TRANSPORTATION DEPARTMENT; UNIVERSITY OF MICHIGAN) (Contact Greg Gardner; Jan; McManus; Obama; Walter McManus)

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June 23, 2009

Section: B

Fuel rules are good for Big 3, study says

June 23, 2009

Detroit News Washington Bureau

Domestic automakers have habitually underestimated consumer demand for fuel-efficient cars, and higher gas-mileage standards are actually good for Detroit's bottom line, a pair of University of Michigan researchers say in a report released Monday.

The report from U-M's Transportation Research Institute prompted criticism from those who say federal mileage requirements hamper the domestic industry's ability to compete. But authors Walter **McManus** and Ron Kleinbaum, both former General Motors Corp. employees, say the industry has the efficiency effect backwards.

"Story after story frames the issue of a struggling industry that will not survive tough fuel economy standards," they write. "However, there is substantial evidence that the domestic auto industry has ignored customers' demands for fuel economy, and has consistently undervalued the impact of fuel economy on their profit potential."

Standards even higher than those announced this spring — which require a fleetwide average of 35.5 miles per gallon by 2016 — would bring the domestic carmakers more than \$3 billion in gross profit, they say, based on an analysis of consumer demand and the cost of meeting new requirements. They say that even under different assumptions on factors such as fuel prices and manufacturing costs, it's more likely that they underestimate rather than inflate the boost to profits, and that the financial benefit of meeting consumer demand for higher mileage far outweighs the costs.

"Good luck," said a skeptical David Cole, chairman of the Center for Automotive Research.

Cole pointed to the extreme shifts of consumer demand for large SUVs and fuel-sipping hybrids as gas prices rocketed and then plunged last year. As long as gas remains cheap, he said, carmakers are right to think consumers value other factors over fuel mileage.

"They didn't have to kidnap people to make them buy SUVs and trucks," he said.

The U-M report tells a different story about SUV sales. As gas prices rose, **McManus** and Kleinbaum argue, car-makers cut prices and boosted incentives to draw consumers.

GM spokesman Greg Martin said the report ignores the automaker's emphasis on fuel economy.

"Mr. **McManus** and Mr. Kleinbaum must have been in a hermetically sealed room when they were working on this," Martin said, pointing to GM's viability plan submitted to federal officials, which called for renewed emphasis on efficiency. He also pointed to CEO Fritz Henderson's appearance at the White House ceremony this spring announcing tougher federal standards.

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COMPANY: WIHLBORGS FASTIGHETER AB / ADR; WHITE HOUSE; GENERAL MOTORS CAPITAL TRUST D; UNIVERSITY OF MICHIGAN; MOTORS LIQUIDATION CO; GENERAL MOTORS CORP

NEWS SUBJECT: (Economic Indicators (1EC19); Major Corporations (1MA93); Economics & Trade (1EC26); Consumer Spending (1CO65))

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REGION: (North America (1NO39); USA (1US73); Americas (1AM92); Michigan (1MI45))

Language: EN

OTHER INDEXING: (AUTOMOTIVE RESEARCH; GENERAL MOTORS CORP; GM; TRANSPORTATION RESEARCH INSTITUTE; UNIVERSITY OF MICHIGAN; WASHINGTON BUREAU; WHITE HOUSE) (Cole; David Cole; Fritz Henderson; Greg Martin; Kleinbaum; Martin; McManus; Ron Kleinbaum; Walter McManus)

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June 23, 2009

Section: Business

Study: GM ignored market research
Authors say there is an unmet demand for more efficient vehicles in U.S.

Rick Haglund / Grand Rapids Press Detroit Bureau

DETROIT -- Bankrupt General Motors Corp. needs to sweep out much of its top management and focus on building smaller, fuel-efficient vehicles to revitalize itself, a new study says.

Researchers at the University of Michigan Transportation Research Institute on Monday said years of ignoring market research that showed consumers wanted better fuel economy led to GM's downfall.

"If GM had followed its own market research results over the last three decades, they would not be in Chapter 11 today," said report co-author Rob Kleinbaum, a former GM consumer researcher and consultant.

Kleinbaum and co-author Walter **McManus** admitted they played a role in not pushing greater fuel efficiency to the forefront as GM employees more than a decade ago.

As a former GM economist, **McManus** said he discounted internal market research that said consumers wanted better gas mileage in their vehicles.

"I was part of a group that thought the economists were smarter than the customers," said **McManus**, director of the research institute's automotive analysis division. "We believed we knew better."

GM declined to comment on the claims, but said it supports stricter fuel-economy requirements and is working on many new technologies to improve fuel efficiency.

Profit in small cars

Kleinbaum and **McManus** concluded domestic automakers could boost gross profits by a combined \$3 billion a year by 2016 by exploiting what they say is an unmet demand for gas-sipping vehicles.

The profit figures are based on gasoline priced at \$3 a gallon, industry sales of 15.3 million vehicles a year and

industrywide mandated increase in fuel economy between 35 miles per gallon and 40.4 mpg.

Last month, the Obama administration proposed boosting fuel economy for cars and trucks to a combined 35.5 mpg by 2016. Automakers support those rules.

Auto Pacific analyst Stephanie Brinley said there are steep costs associated with improving fuel economy, and profits could prove elusive.

"I don't think there's a straight line from a (fuel-efficient) four-cylinder engine to a profit," she said.

And she said every automaker must meet the higher gas-mileage standards, making it difficult for any automaker to achieve a competitive advantage.

But GM's slow-moving, big-vehicle culture must change radically to adapt to the shift to smaller vehicles, U-M researchers said.

GM does not necessarily need to dump Chief Executive Officer Fritz Henderson, a longtime GM insider, they said.

"Fritz needs to change the people sitting at the table with him or he won't be able to change the culture," Kleinbaum said. "I think he needs to change the top 50 to 100 people."

They should be replaced with a combination of outsiders, employees at lower levels of GM and executives from GM's Asian and Latin American operations.

GM executives in those international operations have reputations for making quick decisions and achieving good results, Kleinbaum said.

The U-M study examined turnaround efforts at a number of companies, including IBM, Xerox and Lockheed Martin. Researchers found the most successful turnarounds depend on replacing top management and quickly implementing sweeping change and developing excellent products.

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NEWS SUBJECT: (Demographic Profiles (1DE65); Major Corporations (1MA93); Sales & Marketing (1MA51); Market Research (1MA99); Economics & Trade (1EC26); Surveys & Polls (1SU08); Business Management (1BU42); Business Failures (1BU16))

INDUSTRY: (Automotive (1AU29); Automobiles (1AU45); Oil & Gas (1OI76); Land Transportation (1LA43); Automotive Models (1AU61); Transportation (1TR48); Oil & Gas Retail Marketing & Sales (1OI88); Passenger Transportation (1PA35); Downstream Oil (1DO72); Manufacturing (1MA74))

REGION: (North America (1NO39); USA (1US73); Americas (1AM92); Michigan (1MI45))

Language: EN

OTHER INDEXING: (BANKRUPT GENERAL MOTORS CORP; GM; IBM XEROX; LOCKHEED MARTIN; OBAMA ADMINISTRATION; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE) (Fritz Henderson; Kleinbaum; McManus; Rob Kleinbaum; Stephanie Brinley; Walter McManus)

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June 23, 2009

Section: Business

MILEAGE STANDARDS SEEN AS BENEFITING CARMAKERS: BUT RESEARCHERS SAY U.S. COMPANIES' CULTURE MUST CHANGE

Kimberly S. Johnson
Associated Press

DETROIT -- U.S. automakers have underestimated the importance of fuel efficiency to consumers, but new federal standards are expected to help the companies turn a profit, according to results of a University of Michigan study released Monday.

Researchers at the university's Transportation Research Institute said plans for vehicles to be 30 percent more efficient by 2016, along with federal intervention at General Motors Corp. and Chrysler Group, are forcing the companies to pay closer attention to fuel efficiency when designing new cars, something the automakers previously failed to do.

At times a concerted effort was made by company officials to ignore consumer research when making planning decisions, said the authors of the report, also former GM employees.

"It is standard practice to discount consumer research. It only was applied to safety and quality issues," said Walter **McManus**, director of the automotive analysis division for the institute and co-author of the study.

He said consumers abandoned American-made vehicles in favor of fuel-efficient Japanese models, leading to the downturn of GM, Chrysler and the Ford Motor Co.

"The reaction to fuel prices was way beyond what anyone would have ever predicted," **McManus** said.

But U.S. automakers now have a chance to catch up, as vehicles must average 35 mpg by 2016. The study estimates a combined \$3 billion in annual profit for the Detroit companies as consumers gain greater options for more fuel-efficient vehicles.

"They confused people staying away from fuel-efficient, small cars as not liking fuel economy, instead of the fact they made mediocre cars that no one wanted," said Rob Kleinbaum, co-author of the study and managing director of RAK & Co. "If GM had followed its own research it would likely not be in Chapter 11 (bankruptcy protection)."

Japanese automakers, already well on their way to meeting the federal fuel economy standards, could lose customers as U.S. automakers begin to reach those requirements.

But in order for automakers to see improvements they must make deep cultural changes within the organization. Fiat CEO Sergio Marchionne made sweeping management changes when he took over Chrysler earlier this month.

"It's always the same people at the table. GM needs to change the top 50 to 100 people in North America," Kleinbaum said.

"They need to change the fundamental belief and values of the company that led them into this mess in the first place."

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NEWS SUBJECT: (Major Corporations (1MA93); Economics & Trade (1EC26))

INDUSTRY: (Automotive (1AU29); Oil & Gas Regulatory (1OI37); Automobiles (1AU45); Oil & Gas (1OI76); Science (1SC89); Land Transportation (1LA43); Automotive Models (1AU61); Science & Engineering (1SC33); Transportation (1TR48); Passenger Transportation (1PA35); Automotive Regulatory (1AU33); Manufacturing (1MA74); Transportation Regulatory (1TR42); Automotive Fuels (1AU95))

REGION: (North America (1NO39); USA (1US73); Americas (1AM92); Michigan (1MI45))

Language: EN

OTHER INDEXING: (CHRYSLER; CHRYSLER GROUP; FIAT; FORD MOTOR CO; GENERAL MOTORS CORP; GM; RAK CO; RESEARCHERS; TRANSPORTATION RESEARCH INSTITUTE; UNIVERSITY OF MICHIGAN) (Kleinbaum; McManus; MILEAGE STANDARDS; Rob Kleinbaum; Sergio Marchionne; Walter McManus)

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June 22, 2009

Study: Detroit 3 discounted demand for fuel economy
Greg Gardner
Detroit Free Press

Jun. 22--The Detroit Three automakers could increase profitability by \$3 billion a year if they improve the fuel economy of their vehicles to 35 miles per gallon, according to a study released today by two former General Motors employees now working for the University of Michigan's Transportation Research Institute.

Toyota, Honda and Nissan would see a smaller profit gain, partly because they are farther along to meeting the tougher fuel economy standards announced by President Barack Obama last month. Those standards require an average of 39 miles per gallon for cars and 30 m.p.g. for light trucks by 2016 -- a jump from the current average for all vehicles of 25 m.p.g.

"There is a fundamental perception in Detroit that the industry is being forced to produce more fuel efficient vehicles by a rigid government that doesn't understand what consumers want," said Walter **McManus**, director of the transportation research institute's automotive analysis division and co-author of the report. "This perspective is fundamentally mistaken."

McManus and co-author Rob Kleinbaum said they during their years at GM, which go back more than 10 years in **McManus's** case, consumer research showing demand for better fuel economy frequently was discounted.

Their optimistic forecast that GM, Ford and Chrysler would earn much larger profits as their fuel economy improves was based on the assumption that U.S. new vehicle sales rebound to 15.2 million by 2016 from 13.2 million in 2008. Through the first five months of 2009 new vehicle sales have ranged at annual rates of between 9 million and 10 million vehicles.

The study also assumed that gasoline prices would be about \$3 a gallon over the next several years. If gas rises above that level, profits would improve even more if the Detroit Three raised their fleets' fuel economy by more than the federal mandated requirements.

The study did not take into account where the more fuel efficient vehicles would be built.

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COMPANY: STUDY; GENERAL MOTORS CORP

NEWS SUBJECT: (Major Corporations (1MA93); Economics & Trade (1EC26))

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REGION: (North America (1NO39); USA (1US73); Americas (1AM92); Michigan (1MI45))

Language: EN

OTHER INDEXING: (CHRYSLER; GENERAL MOTORS; STUDY; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE) (Barack Obama; Contact GREG; Honda; McManus; Nissan; Rob Kleinbaum; Walter McManus)

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June 22, 2009

Update: Fixing Detroit: How Far, How Fast, How Fuel Efficient?

ANN ARBOR, Mich., June 22

A New University of Michigan Report Analyzes Scope and Pace of Change Needed To Turn Detroit 3 Around

ANN ARBOR, Mich., June 22 /PRNewswire/ -- As the domestic automobile industry struggles to address the worst financial crisis in its history, a new report released today by the University of Michigan Transportation Research Institute (UMTRI) analyzes critical choices faced by automakers and finds that broad, deep, fast change is necessary for success.

According to the report, "Fixing Detroit : How Far, How Fast, How Fuel Efficient?" successful turnarounds hinge on rapid cultural transformation, which requires replacement of management teams. Further, the report finds that the existing culture within the domestic auto companies systematically underestimates the value of fuel economy, which has crippled profitability.

Modeling the impact of increased fuel economy standards, the study finds that an industry-wide mandated increase in fuel economy of 30 percent to 50 percent (35 miles per gallon to 40.4 mpg) would increase Detroit automakers' gross profits by roughly \$3 billion per year and increase sales by the equivalent of two large assembly plants. The chance that increased profits could exceed \$6 billion is 18 percent if fuel economy standards were increased to 40.4 mpg, but only 6 percent if standards remain at the mandated 35 mpg.

"Our findings support rapid, wide-reaching change in business models," said Walter **McManus**, director of UMTRI's Automotive Analysis Division and co-author of the report. "The key to a long-term recovery is executing an excellent portfolio of products, and we find that increasing fuel economy standards will lead to a portfolio of products that is more likely to raise the profits of the Detroit 3 automakers than to lower them."

Rob Kleinbaum, former GM employee and consultant and report co-author, said the industry attitude about fuel economy is symptomatic of its current culture.

"For years it has discounted consumer research results when calculating the benefits of improving fuel economy, often by as much as two thirds," he said. "If GM had followed its own market research results over the last three decades, they would not be in Chapter 11 today."

Findings

Speed & Scope

The report analyzes extensive literature on the successful turnaround of six international companies of comparable size, diversity and distress to the domestic automobile industry. Research revealed universal approaches critical to success:

Implement Broad, Deep, Fast Change: All successful efforts addressed the fundamental issues that drove them into crisis and they did it as fast as possible. **Replace Management Team:** In addition to changes in strategy and structure, in all cases there were widespread changes in management. **Transform Culture:** All of the successful companies considered changing culture a critical requirement and made it a top priority for success. **Build a Portfolio of Excellent Products:** The path to long-term financial health of any company rests on having a great product portfolio. Our domestic auto industry, in its modern incarnation, has never been able to execute an excellent portfolio, only isolated successes.

Fuel Economy

The report models the impact of three different fuel economy standard increases -- 30 percent (35 mpg), 40 percent (37.7 mpg) and 50 percent (40.4 mpg) -- on the profitability and sales of the industry and separately for the Detroit 3, the Japan 3, and all others. The model captures the cost of fuel economy improvement on suppliers, its impact on pricing and the resulting changes in demand. The inputs to the model are the most recent and accepted estimates of all the key parameters, but since there is debate on many of these values, the report conducts an extensive sensitivity analysis on the results.

Modeling results include:

The Detroit 3 gain profits over base in all scenarios, with the largest profits gained from pursuing more aggressive fuel economy. Japanese automakers' profit gains are smaller than the Detroit 3, with the smallest profits gained from pursuing a 50 percent increase (40.4 mpg) in fuel economy. At a 50 percent increase, the Japanese industry loses sales while the domestic industry continues to gain in sales and profitability -- a result driven by the different starting points.

The value given to fuel economy by automakers has critical impact moving forward. According to the report:

There is compelling evidence that the Detroit 3 have systematically underestimated the value of fuel economy to customers. Because Detroit 3 automakers have long underestimated the consumer value of fuel economy, raising fuel economy standards will not cost more than consumers would be willing to pay. In every scenario, the average cost per vehicle (direct plus indirect) is less than what consumers would be willing to pay.

In a sensitivity analysis conducted on inputs to the model, the report finds:

The chance that increased profits could exceed \$6 billion is 18 percent for a 50 percent increase (40.4 mpg) in fuel economy, but only 6 percent for a 30 percent increase (35 mpg). There is a 7 percent chance that profits would be less than zero if fuel economy standards were increased to 35 mpg, and a 15 percent chance of profit loss if standards were increased to 40.4 mpg. Three of the factors had extreme values capable of generating a drop in Detroit 3 profits: a gasoline price of \$1.50 per gallon (a price not seen since 1999); extremely low consumer response to fuel costs relative to vehicle prices; and direct manufacturing costs (materials and labor) that are more than twice the estimates used by **McManus** and Kleinbaum and three-to-four times National Research Council estimates (adjusted for inflation).

The new report builds on studies published by UMTRI beginning in 2005 predicting that the three biggest domestic automakers stood to lose billions in profits and thousands of jobs in the event of an oil spike -- a prediction borne out as Hurricane Katrina and tensions around the world sent prices skyward. The studies documented the financial risks to Detroit automakers and the risks to American jobs of higher fuel prices, and predicted that gas prices more than \$3 per gallon could lead to combined losses of \$7 billion to \$11 billion of profits for Detroit automakers.

By the time gasoline prices spiked to more than \$4 a gallon in July of last year, Ford and GM had already reported combined losses on their automotive operations of more than \$57.2 billion. And through the first quarter of this year their cumulative automotive operations losses since 2004 total \$83.6 billion. In addition, they have lost 14.2 points of market share since 2004 (GM down 8.8 points and Ford down 5.4 points).

TO ACCESS THE REPORT: <http://deepblue.lib.umich.edu/bitstream/2027.42/63024/1/102298.pdf>

SOURCE University of Michigan Transportation Research Institute

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COMPANY: NATIONAL RESEARCH COUNCIL; UNIVERSITY OF MICHIGAN

NEWS SUBJECT: (Major Corporations (1MA93); Economics & Trade (1EC26))

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REGION: (North America (1NO39); Far East (1FA27); Eastern Asia (1EA61); USA (1US73); Americas (1AM92); Asia (1AS61); Japan (1JA96); Michigan (1MI45))

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COMPANY TERMS: UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE

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April 9, 2009

Section: Main News

No easy road for Detroit, experts say
Greener cars alone won't save the Big 3, analysts say. Higher oil prices and popular designs are needed too.

Jim Tankersley

WASHINGTON

President Obama's threat to cut off government loans and bring on bankruptcy has given him unprecedented leverage to realize his vision of Detroit as the world leader in greener cars.

Yet even if the president succeeds in getting domestic carmakers onto firmer financial ground, even if Detroit overcomes decades of consumer skepticism about the quality of its products and begins cranking out fuel-efficient cars that don't damage the environment -- even then the U.S. auto industry could die.

Discussions about what must happen for General Motors, Chrysler and Ford to survive have centered on issues such as reducing labor costs and persuading creditors to scale down the companies' debts.

Beyond that, Obama said recently: "This restructuring, as painful as it will be in the short term, will mark not an end but a new beginning for a great American industry . . . that is creating new jobs, unleashing new prosperity and manufacturing the fuel-efficient cars and trucks that will carry us toward an energy-independent future."

For that vision to be realized, economists and marketing specialists say, offering cars that are greener and get better mileage is not enough. Two other factors will be important in deciding Detroit's fate.

First, oil prices must take off. High-mileage, low-pollution vehicles generally cost more, and demand for them historically has jumped in times of rapidly rising gas prices and faded when fuel becomes less expensive.

Second, the cars Detroit produces must satisfy consumer tastes and preferences. Marketing data show that a vehicle's size and the image it bestows on its driver play major roles in buyers' decisions.

Reflecting those factors, the two most popular import luxury brands, Mercedes-Benz and BMW, snagged nearly 4% of the U.S. auto market in March, selling more than 33,000 cars. That's about 12,000 more vehicles -- and a 50% larger

market share -- than all hybrids combined.

In other words, greener and more efficient alone will not ensure a bright future for Detroit.

"You will not get people to buy more fuel-efficient cars unless gas prices go up," said Howard Wial, a fellow at the Brookings Institution in Washington who studies the auto industry. Moreover, he said, "whether the Detroit Three will be the ones to sell those cars . . . really depends on their own innovative capacity."

Case in point: When gas approached \$4 a gallon last year, consumers who formerly bought Mercedes and BMWs flocked to the Toyota Prius hybrid -- for its lower operating cost, sleek styling and high-tech features -- said Alexander Edwards, automotive president for the marketing firm Strategic Vision.

Those companies "could take the idea of green and use it to enhance other psychological factors that customers were looking for. . . . [If] you have a sexy, attractive hybrid vehicle, or something innovative like the Prius, that's going to work."

Today, however, with oil selling well off its peak and the economy in the doldrums, Priuses are a glut on the market.

At the heart of the Obama administration's critique of GM, Chrysler and Ford is the idea that they lost a once-dominant hold on the American automobile market because they kept building SUVs and other gas-guzzlers instead of the efficient cars customers wanted. In addition, administration officials and environmentalists contend that global warming and a dependence on foreign oil require shifting away from vehicles powered by petroleum.

History shows that's difficult. Since the 1973 Arab oil embargo, a pattern has repeated itself: Disruptions in world markets -- engineered by producers or caused by events such as wars in the Persian Gulf region -- drive gasoline prices skyward. Consumers respond by looking for cars that inflict less pain at the pump. And every time prices level off, the demand for smaller, more efficient cars fades.

But Detroit automakers long ignored signs that higher fuel prices would shift demand, said Walter **McManus**, an economist at the University of Michigan's Transportation Research Institute and former sales forecaster for GM.

McManus said he and other GM analysts tweaked projection models when they didn't believe their results.

"We thought we were smarter than consumers," he said -- particularly in regard to fuel economy, the impact of which they minimized "in a way we would never [minimize] horsepower or cup holders."

Japanese and European automakers didn't have that option. High gas taxes in their home markets kept fuel prices up and forced them to concentrate on more efficient cars. They beat their American rivals to hybrid technology and to smaller SUVs.

The gas price increases from 2002 to 2007 explain about 40% of U.S. auto manufacturers' lost market share, according to researchers from the University of Illinois at Chicago and the Federal Reserve Board of Chicago.

American carmakers fell behind in other key measures too. Starting in the early 1970s, they "missed the signals that they were vulnerable in the long term because the cars they were producing weren't delivering the quality that other firms, like Toyota, were producing," said Jorge Silva-Risso, an associate marketing professor at UC Riverside who specializes in auto sales.

Detroit has caught up on some quality standards, other analysts said, but still lags in areas such as noise, vibration and

smoothness of ride.

Obama plans to force improvement in fuel economy by setting a blanket standard for carbon dioxide emissions. That could force less-efficient cars off the market, though the process might take years. The president also has asked Congress to limit greenhouse gas emissions, a move that probably would lead to higher oil prices.

Some economists and environmentalists advocate stiff federal gasoline taxes if the market price does not go high enough on its own; a recent forecast by the federal Energy Information Administration predicted oil prices would double by 2012 -- but also conceded that the market is so volatile that prices might not go up at all.

Pushing gas prices up could inflict major political damage, particularly if the recession persists. And it could hamper Detroit's recovery in the short term.

"Generally, you don't make private business more profitable by putting on more constraints," said Robert Murphy, an economist at the free-market Institute for Energy Research think tank. If producing more efficient cars is truly the wave of the future, he added, "then why does the government need to force Detroit to do it?"

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jtankersley@latimes.com

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COMPANY: UNIVERSITY OF ILLINOIS; UNIVERSITY OF ILLINOIS AT CHICAGO; DAIHATSU MOTOR CO LTD; TOYOTA; FORD WERKE AG; BROOKINGS INSTITUTION THE; TROIS ELECTRONICS (WUXI) CO LTD; BAYERISCHE MOTOREN WERKE AG

NEWS SUBJECT: (Market Share (1MA91); Sales & Marketing (1MA51); Weather & Climate (1WE93); Government (1GO80); Major Corporations (1MA93); Business Management (1BU42))

INDUSTRY: (Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Meteorology (1ME62); Automobiles (1AU45); Oil & Gas (1OI76); Oil & Gas Prices (1OI34); Transportation (1TR48); Passenger Transportation (1PA35); Automotive Environmental Initiatives (1AU68); Earth Science (1EA85); Electric Vehicles (1EL48); Transportation New Technology (1TR05); Environmental (1EN24); Oil & Gas Market (1OI62); Science (1SC89); Automotive Models (1AU61); Land Transportation (1LA43); Science & Engineering (1SC33); Oil & Gas Retail Marketing & Sales (1OI88); Climate Change (1CL10); Environmental Solutions (1EN90); Automotive Technology (1AU48); Downstream Oil (1DO72))

REGION: (Americas (1AM92); USA (1US73); Illinois (1IL01); Michigan (1MI45); North America (1NO39))

Language: EN

OTHER INDEXING: (BMW; BROOKINGS INSTITUTION; CHRYSLER; ENERGY RESEARCH; FEDERAL ENERGY INFORMATION ADMINISTRATION; FEDERAL RESERVE BOARD; FORD; GENERAL MOTORS CHRYSLER; INSTITUTE; PRIUS; TOYOTA; TOYOTA PRIUS; UNIVERSITY OF ILLINOIS; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE) (Alexander Edwards; BMWs; Case; Discussions; Generally; History; Howard Wial; Jorge Silva-Risso; McManus; Mercedes; Mercedes-Benz; Obama; Priuses; Reflecting; Robert Murphy; Walter McManus)

KEYWORDS: UNITED STATES; AUTOMOBILE INDUSTRY; AUTOMOBILES; FUEL ECONOMY

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NPR Morning Edition
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March 25, 2009

Thousands Of GM Workers Get Company Cars, Gas

STEVE INSKEEP, host:

It's MORNING EDITION from NPR News. I'm Steve Inskeep.

RENEE MONTAGNE, host:

And I'm Renee Montagne. Even as General Motors continues to slash costs and ask for more taxpayer loans, there is one big perk GM is still offering: a company car, and company-paid gas for about 8,000 white collar employees. A former GM economist estimates that last year alone the automaker spent nearly \$12 million on fuel for its staff. NPR's Frank Langfitt reports.

FRANK LANGFITT: By all accounts, GM's car program is a great deal. Rob Kleinbaum participated in it when he was global strategist at the automaker in the early 1990s. Kleinbaum's nicest company car, a Chevy Suburban with 10-way adjustable heated leather seats.

Mr. ROB KLEINBAUM (Former GM Employee): It's a really highly valued perk. It feels kind of fun. You get to drive a new car every three months. You never have to pay for it. You never have to worry about it going wrong. Gasoline is always free.

LANGFITT: The program is not quite as good today. Now managers get a new car every six months. Kleinbaum says it's one thing for a company to offer a perk like this when it's making tons of money, but last year GM lost more than \$30 billion. It's already received more than \$13 billion in taxpayer loans to avoid bankruptcy and it's asking for up to 16 billion more. Kleinbaum says continuing to provide cars and gas sends the wrong message.

Mr. KLEINBAUM: This is to me as much like when the CEOs flew their airplanes to Washington begging for money, and they all flew their corporate jets. It's not as insulting as that, but it is the same - will have the same impact on the public. Why are these guys getting free cars and free gas when the American taxpayer is paying for it?

LANGFITT: Kleinbaum says GM should kill the program, not because of the expense but because it reinforces a corporate insularity for which GM has been criticized in the past. Kleinbaum says the perk prevents GM employees from fully understanding what customers want and what they go through. Like when gas hit \$4 a gallon last summer.

What were GM people missing if they weren't paying for their gas themselves?

Mr. KLEINBAUM: They were missing the pain. I would be totally in favor of eliminating this benefit, more because it would drive everybody in the company to be much closer to the marketplace and so they kind of feel the same thing that their customers feel.

LANGFITT: GM would not speak on tape, but a spokesman defended the program, which has been around for at least 50 years. He said the perk is part of a white collar employee's overall compensation, which GM says is competitive with Toyota's and Honda's. And the benefit is not entirely free. For instance, managers pay a \$250 administrative fee each month to participate. GM says other companies have car programs too. That's true. But both Ford and Chrysler say they don't provide gas for such a huge swath of employees.

I asked Mark Truby about Ford's program. Truby is head of corporate communications there.

When you go to the pump, do you pay for the gas?

Mr. MARK TRUBY (Ford Motor Company): I do.

LANGFITT: The company, does it give you money for the gas?

Mr. TRUBY: No.

LANGFITT: GM insists its employees appreciate the impact of high fuel prices, but one current GM staffer I spoke with said the perk does blind some people. He recalled that when gas spiked last summer, a colleague complained. Not about the cost but because he had to swipe his credit card twice to fill up the tank of his big SUV. Inside GM the perk is formally called the Product Evaluation Program. The company says it's an important tool to improve vehicle quality. Employees must make routine reports to an internal Web site and immediately identify problems, but one former GM economist questioned the program's value.

Walter **McManus** worked at General Motors during most of the 1990s. He now runs the auto analysis division at the University of Michigan's Transportation Research Institute.

Mr. ?WALTER **McMANUS** (Former GM Employee): I am not aware ? when I was in market research or in product planning ? of anyone at GM ever using the information for any, any sort of analysis or product development decisions.

LANGFITT: I see. And so did anybody take it seriously as an evaluation program when you were there?

Mr. ? **McMANUS**: No one that I knew took it seriously.

LANGFITT: GM disputes that. A spokesman said employees provide frequent critical feedback for engineers. General Motors won't say what it spends on the program, or even how much it spends just on gas, but using GM numbers and recent federal data, **McManus** and I tried to come up with a figure over his dining room table.

Mr. ? **McMANUS**: And if the average is 25 miles per gallon?

LANGFITT: The annual cost for gas last year, as best we could figure: nearly \$12 million. GM has talked about ending the program, but a spokesman said employees have built their lives around it. It allows many to live far from their offices and commute at little expense. The spokesman said killing the program now would be, quote, "extremely disruptive."

Frank Langfitt, NPR News, Washington.

---- INDEX REFERENCES ---

COMPANY: FORD MOTOR CO; DAIHATSU MOTOR CO LTD; TOYOTA; GENERAL MOTORS CORP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Automotive (1AU29); Land Transportation (1LA43); Automotive Models (1AU61); Transportation (1TR48); Four Wheel Drive (1FO31); Passenger Transportation (1PA35); Automobiles (1AU45))

Language: EN

OTHER INDEXING: (CHEVY SUBURBAN; CHRYSLER; FORD MOTOR; GENERAL MOTORS; GM; INSIDE GM; LANGFITT; LANGFITT: GM; NPR; NPR NEWS; PRODUCT EVALUATION PROGRAM; TOYOTA; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE) (Ford; Frank Langfitt; Gasoline; Honda; Kleinbaum; Mark Truby; McMANUS; Mr.; Mr. ROB; Renee Montagne; Rob Kleinbaum; Steve Inskeep; Truby; Walter McManus)

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March 11, 2009

U.S. Senator: California Shouldnt Be Able to Regulate Vehicle GHGs

Joanna Franco

Arlington, Va. The U.S. EPA should not grant California the ability to regulate greenhouse gas emissions from motor vehicles, said Sen. Carl Levin (D-Mich.) at an EPA hearing recently.

Instead, Levin said, EPA should work with the U.S. National Highway Transportation Safety Administration to develop a nationwide fuel economy standard that addresses fuel efficiency and greenhouse gas reductions.

If we take advantage of the unique opportunity to bring these efforts together, we can have a strong national policy that incorporates technology innovation into the vehicles sold in the U.S., and that contributes to reduce our greenhouse gas emissions globally, Levin said, speaking as one of several dozen commenters at the public hearing.

The EPA is considering whether to grant California a waiver under the Clean Air Act which would allow the state to regulate greenhouse gas emissions from motor vehicles.

If EPA grants the waiver, then California plus 13 other states and the District of Columbia would be able to regulate vehicular GHGs.

Under the George W. Bush Administration, EPA had rejected Californias request on the grounds that California did not meet compelling and extraordinary circumstances for granting the waiver.

California and the other states then sued EPA for failing to comply with an April 2007 U.S. Supreme Court decision which determined that EPA does have the authority to regulate greenhouse gases.

Since taking office in January current President Barack Obama has asked EPA to review its prior decision on the California waiver.

That review comes as both General Motors and Chrysler have sought government bailouts in order to keep their companies solvent.

At the hearing, battle lines fell along the usual sides, for the most part: California officials argued that GHG emissions adversely impact Californias air quality, while auto manufacturers contended that the regulations would create a costly

patchwork sales system in the U.S.

In conclusion, we EPA believe made a mistake, said California Air Resources Board Chairman Mary Nichols, after arguing that California had met all the conditions for a waiver from the Clean Air Act.

Not so, said Damon Lester, president of the National Association of Minority Automobile Dealers.

The problem with the CARB approach is that it ignores consumer demand, Lester said.

As for Levin, he stated three issues he had with Californias waiver request.

His first issue is that Californias regulation would bring back the fleet-wide average concept, which was abandoned when the federal government revised the corporate average fuel economy standard in 2007.

The revision ended a long-standing element of the old CAFE system that discriminated against the domestic auto industry by requiring each company to meet a fleet-wide average and not recognizing the inequities of such a system for certain manufacturers, Levin said.

Second, Levin argued that Californias regulations would not apply to all auto manufacturers and would exempt in any state that adopted the California regulations those manufacturers who sell less than 60,000 vehicles in the State of California.

So while GM, Ford and Toyota would have to meet this standard, Hyundai, Land Rover, and Audi, among others, would not, he continued.

Third, Levin contended that the California regulations would create a patchwork of sales strategies for auto dealers and manufacturers, requiring them to sell different vehicle mixes in different states at the expense of consumer demand.

In his concluding remarks, Levin said, I hope that if EPA acts, it joins with NHTSA to adopt a single national standard based on technological feasibility for each class of vehicle.

Even though the dominant theme expressed by automakers at EPAs hearing was that EPA should reject Californias waiver request, there were some dissenters.

Adam Lee, an auto dealer from Maine, told EPA he often receives questions from would-be buyers about why there arent more fuel-efficient vehicles available for sale, while Walter **McManus**, director of the University of Michigan Transportation Research Institute, said automakers have been tone deaf to consumers wishes.

Consumers want fuel economy. And they showed last year [when gasoline prices were at record highs] that they would move quickly towards fuel-efficient vehicles, **McManus** said.

McManus also said the patchwork argument used by the auto industry doesnt work because the industry already uses different sales strategies in different states.

-- Joanna Franco

---- INDEX REFERENCES ----

COMPANY: CARB; HYUNDAI CORP; GENERAL MOTORS CORP

NEWS SUBJECT: (Legal (1LE33); Judicial (1JU36); Government (1GO80); Major Corporations (1MA93); Economics & Trade (1EC26); Environmental Law (1EN88))

INDUSTRY: (Automotive (1AU29); Oil & Gas Regulatory (1OI37); Energy Industry Environmental Issues (1EN22); Automobiles (1AU45); Oil & Gas (1OI76); Transportation (1TR48); Earth Science (1EA85); Oil Regulatory (1OI92); Passenger Transportation (1PA35); Automotive Regulatory (1AU33); Transportation Regulatory (1TR42); Science (1SC89); Automotive Models (1AU61); Land Transportation (1LA43); Science & Engineering (1SC33); Environmental Solutions (1EN90); Environmental Regulatory (1EN91); Downstream Oil (1DO72))

REGION: (Americas (1AM92); USA (1US73); California (1CA98); Michigan (1MI45); North America (1NO39))

Language: EN

OTHER INDEXING: (BUSH ADMINISTRATION; CAFE; CALIFORNIA AIR RESOURCES BOARD; CALIFORNIAS; CARB; CHRYSLER; CLEAN AIR ACT; EPA; GENERAL MOTORS; GHG; GHGS; GM; HYUNDAI; NATIONAL ASSOCIATION OF MINORITY AUTOMOBILE DEALERS; REGULATE VEHICLE GHGS; US NATIONAL HIGHWAY TRANSPORTATION SAFETY ADMINISTRATION; US SUPREME COURT; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE) (Adam Lee; Audi; Barack Obama; California; California Shouldnt; Carl Levin; Damon Lester; Ford; Joanna Franco; Land Rover; Lester; Levin; Mary Nichols; McManus; Toyota; Va; Walter McManus)

KEYWORDS: Levin: California Shouldnt Be Able to Regulate Vehicle GHGs

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February 6, 2009

Section: BUSINESS

Smaller, smarter, slower
Economists tout efficient cars at the auto show

Andrea Tomer, THE WASHINGTON TIMES

There are cheaper and easier ways to boost gas mileage than hybrid technology, economists told car enthusiasts at the Washington Auto Show this week.

The strategies include stricter speed limits, smaller cars, higher fuel taxes and changing and upgrading existing vehicles with new technology to improve fuel efficiency.

Economists from across the nation Wednesday discussed the impact of gasoline prices on driving habits and the auto industry at a forum organized by the U.S. Environmental Protection Agency and the U.S. Department of Energy.

"You can save a lot more by using a smaller car," said Walter S. **McManus**, director of the University of Michigan's Transportation Research Institute.

Mr. **McManus** said buyers are increasingly investing in smaller vehicles, even though the pain at the pump has eased significantly in the past few months. Despite the relief, people aren't investing in bigger vehicles.

Although people are interested in buying smaller vehicles for their fuel efficiency, Mr. **McManus** said there are others who buy bigger vehicles for safety reasons.

But, he added, "There is just as much evidence that using a large vehicle makes the other vehicles around it less safe when driving."

Since gas prices rose last summer, people have become more concerned with improving their fuel economy and gasoline use. Even though the price of gasoline has been cut to half of what it was last year, consumers are still being mindful of how much they are driving and using fuel. Environmental concerns also have contributed to the current conservation of fuel.

"Last summer, whenever I was driving, I noticed that people were driving closer to the speed limit," said Thomas

White of the U.S. Department of Energy. "That was back when gas prices were higher, and even seems true today."

Even with the current lower gas prices, people are still interested in fuel-efficient vehicles.

Commenting on the impact of changing fuel prices, Mr. White attributed the drop of gasoline use per car to the corporate average fuel economy standards issued in the 1970s. These standards were established as a result of the energy crisis of the time.

He illustrated how the growth of vehicle miles traveled has been negative for the first time since 2007, with each month of 2008 showing to be the same. Mr. White suggested having stricter fuel economy requirements, higher fuel taxes, speed limit restrictions and pay-as-you-go insurance as alternatives.

"The methods to improve fuel economy are all well-understood" said K Gopal Duleep, managing editor of Energy and Environmental Analysis Inc.

Mr. Duleep outlined shifts in technology needed to meet 2015 CAFE standards and what is available technologically to improve fuel economy.

He said that in the long run, gasoline vehicles will deliver better gas mileage than using alternative engines if a few changes are made to improve them.

"Conventional technology improvements continue to be more cost effective than alternatives," Mr. Duleep said.

---- INDEX REFERENCES ----

COMPANY: ENVIRONMENTAL RECOVERY SERVICES LTD; ENVIRONMENTAL POLYMERS GROUP PLC; US ENVIRONMENTAL PROTECTION AGENCY; ENVIRONMENTAL ANALYSIS INC; US DEPARTMENT OF ENERGY; ENERGY AND ENGINE TECHNOLOGY; ENVIRON HOLDINGS INC; ENVIRONMENTAL ELEMENTS CORP

INDUSTRY: (Environmental (1EN24); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Oil & Gas Market (1OI62); Automobiles (1AU45); Oil & Gas (1OI76); Gasoline (1GA40); Oil & Gas Prices (1OI34); Land Transportation (1LA43); Transportation (1TR48); Passenger Transportation (1PA35); Environmental Solutions (1EN90); Automotive Environmental Initiatives (1AU68); Automotive Technology (1AU48); Electric Vehicles (1EL48); Downstream Oil (1DO72); Automotive Fuels (1AU95))

REGION: (North America (1NO39); USA (1US73); Americas (1AM92))

Language: EN

OTHER INDEXING: (CAFE; ENERGY; ENVIRONMENTAL; ENVIRONMENTAL ANALYSIS INC; US DEPARTMENT OF ENERGY; US ENVIRONMENTAL PROTECTION AGENCY; UNIVERSITY OF MICHIGAN'S TRANSPORTATION RESEARCH INSTITUTE) (Commenting; Conventional; Duleep; Gopal Duleep; McManus; Thomas White; Walter S. McManus; White)

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December 5, 2007

ANALYSIS-Automakers see changes if U.S. fuel rule approved

John Crawley and Rachelle Younglai

WASHINGTON, Dec 5 (Reuters) - A congressional deal to boost U.S. automobile fuel economy by 40 percent over the next 12 years could add hybrids and electric vehicles to the road, but more efficient engines and transmissions can also play a large role in meeting the goal, according to industry experts.

"They won't need hybrids to get there. They won't need diesels to get there," said David Friedman, research director for the Union of Concerned Scientists. "The best way to comply and save consumers money is to use inexpensive and conventional technology they have already developed."

The first rewrite of fuel efficiency standards is expected to pass the House of Representatives as early as Wednesday as part of a larger energy bill. But there is potential trouble in the Senate as well as a White House veto threat over issues largely unrelated to changes in the auto standards.

Nevertheless, since creating fuel targets more than 30 years ago, Congress is as close as it has ever been to forcing manufacturers to make passenger cars, sport utility vehicles, pickup trucks and vans use significantly less gasoline.

A breakthrough deal among House Democratic leaders last week would require the U.S. fleet to average 35 miles per gallon by 2020, up 40 percent from the current average.

In a concession mainly to financially troubled U.S. automakers, efficiency gains would continue to be calculated separately for light trucks -- a category that include SUVs, minivans and pickups -- and for cars. This is significant because manufacturers could meet the target by using, to some degree, better performing cars to offset less efficient light trucks.

Although automakers opposed a sharp mandate for greater efficiency, industry executives say the change, as it stands, would give them clarity on the issue for some time. This could make choices about production, materials and design easier to recognize but no less difficult to make.

"Automakers and the country need the certainty of one national plan to guide the considerable additional investments necessary to move forward," Jim Lentz, president of Toyota Motor Corp Sales USA, said in a statement.

Bill Ford, executive chairman of Ford Motor Co , said this week it will be "a stretch" to meet the new standard but added the company intends to do so if it is approved.

"We have to do it," Ford said.

Rick Wagoner, chairman of General Motors Co , said the change poses a "significant technical and economic challenge" to the industry. But GM plans to more fully embrace alternative fuels, like ethanol and a fully electric car, and improve the conventional gasoline engine.

Dieter Zetsche, chief executive of Daimler AG , touts hydrogen fuel cells and clean diesel technology. But he told a business group this week in Washington that more efficient gas engines "will play a significant role" in the foreseeable future. He noted strong U.S. demand for Daimler's fuel-efficient, two-seat Smart Car.

Another auto executive, speaking anonymously because the matter is still tied up in Congress, said the industry will move cautiously and could make subtle trade-offs first on transmissions and engines, depending on consumer preferences and the price of gasoline, which is well above \$3 a gallon in many areas.

Toyota intends to expand gasoline-electric hybrids and has discussed using lighter weight materials to reduce weight up to 30 percent. Toyota and Honda Motor Co excel in producing cars that already meet or exceed the 2020 target.

Walter **McManus**, director of the University of Michigan Transportation Research Institute, does not expect a big shift in production. He said automakers have a greater opportunity for efficiency gains with technology adjustments to light trucks because they only average about 22 mpg today.

"That is where the opportunity is for Detroit," **McManus** said.

Lawmakers are under pressure to reduce oil imports, especially from the Middle East, to increase U.S. security prospects. There is also a desire in Congress to force auto production changes as a way to counter high gas prices.

Gasoline demand accounts for about 45 percent of the almost 21 million barrels of oil consumed in the United States daily.

Friedman's group says the proposed efficiency change would save about 1.1 million barrels of oil per day in 2020, half of what the U.S. currently imports from the Gulf. (Editing by John Wallace)

---- INDEX REFERENCES ---

COMPANY: WHITEHOUSE; FORD MOTOR COMPANY BRASIL LDA; ASTON MARTIN LAGONDA LTD; FORD MOTOR COMPANY OF CANADA LTD; TOYOTA MOTOR CORP/; UNITED STATES OF AMERICA FEDERAL GOVERNMENT OF; GENERAL MOTORS CO; CLOSED JOINT STOCK COMPANY FORD MOTOR CO; FORD MOTOR COMPANY SA DE CV; HONDA MOTOR CO LTD *; ALLIANZ SUBALPINA SPA; FORD MOTOR CO LTD; HOUSE OF REPRESENTATIVES; FORD MOTOR CO; TOYOTA MOTOR CORP; FORD MOTOR CO AS; DAIMLER AG; TOYOTA MOTOR NORTH AMERICA INC; UNION SUD ALIMENT; MOTORS LIQUIDATION CO

NEWS SUBJECT: (Legislation (1LE97); Government (1GO80); U.S. Legislation (1US12); Major Corporations (1MA93); Regulatory Affairs (1RE51))

INDUSTRY: (Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Automobiles (1AU45);

Transportation (1TR48); Automotive Parts & Accessories Manufacturing (1AU98); Automotive Environmental Initiatives (1AU68); Passenger Transportation (1PA35); Electric Vehicles (1EL48); Automotive Regulatory (1AU33); Manufacturing (1MA74); Transportation Regulatory (1TR42); Transportation New Technology (1TR05); Environmental (1EN24); Trucks (1TR73); Automotive Models (1AU61); Land Transportation (1LA43); Automotive Manufacturing (1AU46); Environmental Solutions (1EN90); Automotive Technology (1AU48))

REGION: (U.S. Midwest Region (1MI19); Americas (1AM92); USA (1US73); Michigan (1MI45); North America (1NO39))

Language: EN

OTHER INDEXING: (ANALYSIS AUTOMAKERS; AUTOMAKERS; CONGRESS; DAIMLER AG; FORD MOTOR CO; GENERAL MOTORS CO; GM; HONDA MOTOR CO; HOUSE DEMOCRATIC; HOUSE OF REPRESENTATIVES; SENATE; TOYOTA MOTOR CORP; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE; USA; WHITE HOUSE) (Bill Ford; David Friedman; Dieter Zetsche; Ford; Friedman; Jim Lentz; John Wallace; McManus; Rick Wagoner; Toyota; Walter McManus)

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Section: BUSINESS

THE POWER OF AN IDEA
A FATHER AND SON TEAM UP IN THE BIG RACE FOR GREATER FUEL EFFICIENCY
MARK PETERS
Courant Staff Writer

WEST HARTFORD --

At first, designing an ultra-efficient engine was just a form of escape for Nikolay Shkolnik.

Shkolnik started thinking about engines in the early 1990s, when he was grieving the death of his father, who came with him to the U.S. from the Soviet Union. At about the same time, Shkolnik was forced to close his fledgling robotics company after it lost government funding.

In the face of such emotional turmoil, some people might play golf, restore an old house or take up a new hobby -- anything to change the focus. Shkolnik, however, began pondering thermodynamics.

It was a way to unwind. And for a decade, that's all it was as he took jobs with Milton Bradley Co. and with a Boston consulting firm.

But along the way, Shkolnik, 54, joined by his son, Alexander, 26, began to think he might be on to something -- a truly original way to make the old-fashioned internal combustion engine much more efficient.

Shkolnik, a physicist, first started talking to his son about his idea when Alec was in elementary school. Over the years, Alec Shkolnik would become one of his father's biggest supporters and harshest critics, dismissing ideas he thought weren't practical. The two toyed with several inventions, from a single-handed keyboard to special holders for compact discs.

But the idea of radically redesigning the internal combustion engine lingered in the minds of both father and son. Over the years, they worked on the problem in their usual way: Nick Shkolnik came up with new designs and Alec Shkolnik found the flaws.

The venture suddenly accelerated recently with an infusion of cash.

LiquidPiston, the business formed around the idea, received a \$1.25 million venture capital investment in late July from two firms, Adams Capital Management of Pittsburgh and Northwater Capital of Toronto. The money will be used to build a prototype engine from designs, calculations and experiments that were done in the basement of Shkolnik's home near Elizabeth Park. The company has also received a \$70,000 grant from the U.S. Army.

Nick Shkolnik now has two years worth of funding to turn his ideas into actual moving parts. He left a consulting job at Gen3 Partners in Boston, rented space in Bloomfield and is now searching for an engineer to work with him full time on building a prototype.

"You've got to realize -- I'm 54. To go out at 54 to start a business is not easy. A lot of people say I'm crazy," Shkolnik said, seated in his nearly empty new office space. He paused and added: "To start this kind of business is triple crazy."

Shkolnik is not alone in his fevered work on the engine. Thousands of automotive engineers, university researchers and garage tinkerers are working to improve the internal combustion engine. With the possibility of increased federal fuel economy standards, gas mileage has become a focus in Detroit, auto industry experts said.

Engines have become more efficient over the years, but at the same time, cars have become heavier. It's taken plenty of engineering advances just to keep average fuel economy constant over the past two decades, said Zoran Filipi, an engineering professor at the University of Michigan.

Most entrepreneurs and inventors are trying to improve efficiency by tweaking the standard design of current-day engines, said Walter **McManus**, director of the auto analysis division of the Transportation Research Institute at the University of Michigan. But the auto industry quickly loses interest in ideas that go much beyond that because large-scale changes are difficult to adopt, **McManus** said.

Shkolnik said his engine -- at least on paper -- could improve average fuel efficiency by 2.5 times, putting the possibility of 100 miles per gallon in reach.

The technology could have dozens of applications, from lawnmowers to cars to generators. It also could be altered to use gasoline, diesel or various alternative fuels. His plan is to start with a niche market: diesel-powered electric generators that tractor-trailer drivers use when they idle for the night. The decision was made because it's easier to enter the market with a new product, said William Frezza, a partner at Adams Capital.

"You don't wake up one morning and retool Detroit," Frezza said.

Shkolnik is quick to warn that he doesn't have an engine built yet -- a fact that potential investors remind him of often. But he has confidence in his calculations.

"This idea seemed grander than many of his others -- a real world-changing technology -- and that is exciting," said Alec Shkolnik, who still works on the engine project with his father as he finishes his doctorate at the Massachusetts Institute of Technology.

"My natural reaction in the beginning was that surely someone else must have thought of these ideas, and if not, why not?" he said.

Nick Shkolnik says his approach has been different. Rather than start with an engine and try to change its existing design, he started with the principles of thermodynamics and looked at compression, expansion and volume. As a result, his idea represents a complete redesign of a traditional engine's geometry. Shkolnik calls his invention the high-efficiency hybrid cycle.

A major change to improve efficiency comes from moving the combustion cycle from single cylinders, the way it's done with the traditional piston engine. Instead, his design separates the combustion process into two chambers, something Shkolnik says can produce more energy from the same amount of fuel and ensure that less energy is wasted through exhaust.

To improve fuel economy, the engine borrows concepts from designs for both the gasoline and diesel engine, such as the diesel characteristic of compressing only air and not an air-fuel mixture. The pistons' up-and-down plunging motion is replaced with the circular motion of a rotor.

The final product is expected to be far more fuel efficient, especially when the engine is running at less than full power. That means a more efficient engine, since drivers use full power only rarely, such as when rapidly accelerating.

If Shkolnik's conclusions on paper turn out to work in an actual engine, the reward could be immense. The market for the internal combustion engine is estimated at \$250 billion. Also, a more fuel-efficient car engine could help solve major issues like U.S. reliance on foreign oil and global warming.

"It is a big problem. I don't like small problems," Shkolnik said.

The engine's compressor, which has already been made as a prototype, could be a product on its own for use in refrigerators and air-conditioners.

For many years, Nick Shkolnik's engine idea seemed destined to remain an intellectual exercise, another entry in his thick book of invention ideas.

But Alec Shkolnik didn't allow that to happen.

Nick and Alec Shkolnik have the inverse of the typical father-son relationship, said Brian Roughan, who got involved with LiquidPiston while a graduate student at MIT's Sloan School of Management.

Nick Shkolnik, the father, is the idealistic dreamer. His son is more focused on practical applications and creating a business.

"I am usually discouraging of his ideas, but with every new iteration of the engine design, I liked it more and more," Alec Shkolnik said. "So at some point ... I grew excited enough about the idea to really try to help Nick with developing and commercializing the engine."

That point came around five years ago. Alec Shkolnik started calling big companies that use lots of engines, like John Deere, the tractor and equipment manufacturer. The typical reaction was either "bring us a prototype," or "thanks, but we're already working on that," he said.

Shortly after starting his doctoral studies at MIT, Alec Shkolnik decided he and his father should form a business team. It included Roughan and other M.B.A. students as well as the two Shkolniks. Frezza, from Adams Capital, became the team's mentor.

They entered the MIT \$50,000 entrepreneurship competition in 2004 and were runners-up, receiving \$10,000, which paid for the first patent application. Nick and Alec Shkolnik then went looking for investors. There were months of meetings with venture capital firms and other possible investors. Adams and Northwater Capital eventually agreed to invest after months of meeting with firms to pitch the idea.

Now Nick Shkolnik must make his idea a reality and see if years of calculations, design and debate with his son result in the revolutionary product he first envisioned.

"If it comes anywhere close to theory, we have a company," Frezza said.

Contact Mark Peters at mrpeters@courant.com.

PHOTO: NIKOLAY SHKOLNIK of West Hartford says that, theoretically, the engine he's developing could improve average fuel efficiency by 2.5 times, putting the possibility of 100 miles per gallon in reach.

GRAPHIC: Seeking Efficiency

LIBRARY NOTE: This graphic was not available electronically for this database.

---- INDEX REFERENCES ---

COMPANY: NICK; MASSACHUSETTS INSTITUTE OF TECHNOLOGY; MILTON BRADLEY CO

NEWS SUBJECT: (Corporate Funding (1XO17); Intellectual Property (1IN75); Funding Instruments (1FU41); Patents & Trademarks (1PA79); Venture Capital (1VE73); Economics & Trade (1EC26))

INDUSTRY: (Electric Utilities Technology (1EL23); Electric Utilities (1EL82); Automotive Fuels (1AU95); Downstream Oil (1DO72); Utilities Technology (1UT40); Oil & Gas (1OI76); Science (1SC89); Science & Engineering (1SC33); Utilities (1UT12); Financial Services (1FI37))

REGION: (Americas (1AM92); New England (1NE37); North America (1NO39); Massachusetts (1MA15); USA (1US73); Michigan (1MI45))

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OTHER INDEXING: (ALEC SHKOLNIK; MASSACHUSETTS INSTITUTE OF TECHNOLOGY; MILTON BRADLEY CO; NICK; NICK SHKOLNIK; NIKOLAY SHKOLNIK; SHKOLNIK; SLOAN SCHOOL OF MANAGEMENT; TRANSPORTATION RESEARCH INSTITUTE; UNIVERSITY OF MICHIGAN) (Alexander; Brian Roughan; Contact Mark Peters; Frezza; John Deere; LiquidPiston; McManus; Roughan; Walter McManus; William Frezza; Zoran Filipi)

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July 26, 2007

Study: New fuel standards would help Big Three

Jenny Rode

News Business Reporter

A new study from the University of Michigan's Transportation Research Institute shows that if Detroit's automakers adopted tougher fuel economy standards that take vehicle size into account, they could improve their profits.

A study by Walter **McManus**, director of UMTRI's Automotive Analysis division, analyzes the economic impact of legislative proposals to raise Corporate Average Fuel Economy, or CAFE, standards. **McManus** found that when the proposed CAFE standards are based on a vehicle's size, Detroit's automakers could meet a lower fuel economy standard because they make larger cars than their foreign competitors.

The analysis also says that attribute-based CAFE standards would produce market share gains and increased profits for the Detroit automakers because the improvements will have higher market value and higher profit margins.

The increased costs of installing more expensive equipment would be "more than offset" by fuel savings, according to the report.

A U.S. House of Representatives bill would require vehicles to meet efficiency rules of 32 to 35 miles per gallon by 2022 has been backed by automakers such as General Motors Corp. and Toyota Motor Corp. The auto industry opposes a more stringent measure in the House that would require vehicles to meet 35 mpg by 2018. The Senate already has approved an energy bill that would set it at 35 mpg by 2020.

Dave Cole, chairman of the Center for Automotive Research in Ann Arbor, said carmakers can't make the fuel economy technology work unless they build vehicles that are smaller and more expensive. He questions whether consumers want smaller cars and also if they are willing to pay the extra costs associated with the new fuel-saving technology. "How do you sell these products to people at a reasonable price if they don't meet their utility needs?" he asked.

He also said CAFE standards in general "lack consumer pull," meaning if fuel prices decline, no one wants to buy smaller cars.

The UMTRI study was funded by The Energy Foundation, a San Francisco-based organization that promotes energy

efficiency and renewable energy.

---- INDEX REFERENCES ----

COMPANY: GENERAL MOTORS CORP; TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC; ENERGY FOUNDATION; GENERAL MOTORS CORP ELECTRONIC DATA SYSTEMS CORP; US HOUSE OF REPRESENTATIVES

Language: EN

OTHER INDEXING: (AUTOMOTIVE RESEARCH; CAFE; CORPORATE AVERAGE FUEL ECONOMY; ENERGY FOUNDATION; GENERAL MOTORS CORP; NEWS BUSINESS; SENATE; TOYOTA MOTOR CORP; US HOUSE OF REPRESENTATIVES; UMTRI; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE) (Dave Cole; McManus; Walter McManus)

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6/26/07 Charleston Gazette & Daily Mail (WV) 2C
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June 26, 2007

Ruling on fuel economy reflects Big 3's loss of clout
DAVID SHEPARDSON
THE DETROIT NEWS

WASHINGTON - If any doubt remained that Detroit's auto industry has lost most of its once considerable clout on Capitol Hill, the Senate's lopsided vote this week to raise fuel economy mandates removed it.

The most intensive Detroit-led lobbying effort in recent memory not only failed, it was virtually ignored by a Senate that voted 65-27 to approve fuel-economy regulations that the automakers said could cripple the industry.

"We don't believe you anymore," Senate Majority Leader Harry Reid said Friday. "We've had enough."

The reasons for Detroit's impotence in Washington are many. The industry lost credibility by fighting even modest fuel measures with the-sky-is-falling rhetoric, critics say. It's losing the battle with Asian automakers, constantly cutting jobs and retrenching. Global warming and America's dependence on foreign oil have become issues that no politician can afford to ignore.

The fear and respect the industry cultivated has been replaced by finger-wagging lectures about getting with the times and building "relevant" products.

Chrysler Vice President Jason Vines, in an appearance on Mitch Albom's radio show Friday, said America is the only country where the government doesn't care about and protect its domestic auto industry. He said it was time to "give a damn" about an industry that creates jobs and wealth for hundreds of thousands of people.

But the tide seems to be shifting the other way.

Fuel economy is just the latest issue that domestic automakers have taken a beating on in the nation's capital.

One of the reasons is the rise of the foreign automakers, said Walter **McManus**, head of the University of Michigan Transportation Research Institute's auto analysis division.

"The auto political clout is spread out among domestic and transplant auto manufacturers," **McManus** said.

"That's the reality."

Nissan North America was a key lobbying force in winning changes in the fuel-economy measure that led to senators in Tennessee and Mississippi supporting it.

The automakers' rough year on Capitol Hill isn't likely to get any better.

On other issues, automakers have urged Congress to do more to combat what they call "currency manipulation" by Japan and China; they have asked for help with their soaring medical costs; and they have lobbied the Bush administration to sign a Korea Free Trade Agreement that would do more to guarantee access to the U.S. market.

Instead, a House committee voted this week to end a "Hummer loophole" - a provision that gives small business up to a \$25,000 tax deduction for buying larger vehicles for work purposes. And the Bush administration's free trade agreement with Korea will do nothing to open the auto market, the companies complain.

In an embarrassing episode, Detroit automakers were forced to wait six months for a long-delayed meeting with President Bush, only to be spurned in their bid for more research money.

But Bush actually may be the automakers' best hope for stopping what they call "wildly extreme" measures. He invited them back for a second meeting in March and has said he will oppose the fuel-economy provisions.

On Friday, Michigan lawmakers were regrouping on the fuel-economy issue, amid fears the Senate-approved bill increasing corporate average fuel economy, or CAFE, requirements to a fleetwide average of 35 mpg by 2020 could be put on a fast track in the House.

Officials from General Motors Corp., Ford Motor Co. and Chrysler were called to a late afternoon meeting with an aide to Rep. John Dingell, D-Mich., to talk about what's next.

Automakers had for the first time supported a specific - although softer - fuel increase than the Senate approved. The proposal by Michigan Sen. Carl Levin and others would have required automakers to raise passenger gas mileage to 36 mpg by 2022 and light truck mileage to 30 mpg by 2025.

Levin said in an interview Friday that growing concern about global warming and near-record gas prices had peeled away many long-time auto supporters.

"Ultimately, the public will pay the price. And, in the first few years, nobody will be willing to pay it, so industry sales will be lower, and fleet renewal - thus, beneficial effect - much smaller," GM Vice Chairman Bob Lutz said on Friday.

"This whole thing has nothing to do with energy policy, CO2 or the environment. This is purely punitive; the 'big business haters' finally giving us our due for decades of 'colluding with oil companies' and 'forcing the U.S. public to buy big SUVs.'"

Lutz said the contempt was real. "Make no mistake: these people hate us, and want to inflict pain," he said.

The House Energy and Commerce Committee, chaired by Dingell, isn't expected to take up the fuel-economy provisions until Sept. 1.

When Reid said House Speaker Nancy Pelosi told him fuel-economy legislation would be passed "in the near future," auto companies started to worry that it may be on a faster track than previously thought.

But Pelosi isn't planning to change the timetable, her spokesman Brendan Daly said.

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; NISSAN NORTH AMERICA INC; NISSAN MOTOR CO LTD; ASTON MARTIN LAGONDA LTD; FORD MOTOR CO; GENERAL MOTORS CORP ELECTRONIC DATA SYSTEMS CORP; GM

NEWS SUBJECT: (Government (1GO80); Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Land Transportation (1LA43); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Automobiles (1AU45); Automotive (1AU29))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73); Michigan (1MI45))

Language: EN

OTHER INDEXING: (CAFE; CHRYSLER; CHRYSLER VICE; CONGRESS; FORD MOTOR CO; GENERAL MOTORS CORP; GM; HOUSE ENERGY AND COMMERCE COMMITTEE; HOUSE SPEAKER NANCY PELOSI; KOREA; KOREA FREE TRADE; MICHIGAN; MICHIGAN SEN; NISSAN NORTH AMERICA; PELOSI; REID; SENATE; SENATE MAJORITY LEADER HARRY REID; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE) (Bob Lutz; Brendan Daly; Bush; Carl Levin; Dingell; Jason Vines; John Dingell; Levin; Lutz; McManus; Mississippi; Mitch Albom; Ruling; Ultimately; Walter McManus)

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May 25, 2007

Gas prices haven't cut auto sales

Tom Krisher; Associated Press

Ohio

FERNDAL, Mich. -- As Ian Kaminsky shopped for a car to replace his leased Honda Accord this month, gasoline prices continued to flirt with record highs.

Petroleum, he said, was a consideration as he decided between another Accord, a Chrysler Sebring, Toyota Camry, Jeep Commander and other models. On Wednesday, he settled on an Accord, forsaking a more efficient four-cylinder engine for a V-6.

The larger engine may cost a little more to run, but the 27-year-old radiology resident at a suburban Detroit hospital said he wanted the additional power. "I think my income will increase enough in the next few years" to pay the incremental gasoline costs, he said as he signed the new car paperwork at Ferndale Honda just north of Detroit.

Industry analysts say Kaminsky's decision to get the larger engine is typical.

"It really didn't seem like the gas prices had a direct impact in May," said Jesse Toprak, senior analyst for the Edmunds.com auto Web site, who analyzed sales data for the first three weeks of the month. "It seemed like people almost got used to it."

Sales data from the first three weeks of the month show that truck sales likely will rise compared with May of last year, due largely to increased rebates and other incentives, Toprak said. The incentives bring the price of a truck down so low that buyers figure they can buy a lot of gasoline with the discount.

Auto makers will release their U.S. sales figures for all of May on July 1.

"People tend to buy more fuel-efficient vehicles when the price is higher," said Walter **McManus**, director of the automotive analysis division with the University of Michigan Transportation Research Institute. "The only way auto makers have managed to keep that from really killing the SUVs and pickups is with cutting prices by zero-percent financing and cash incentives."

While truck sales numbers may not be down, profits for the Detroit Three auto makers likely will be, **McManus** said.

Still, most consumers have grown accustomed to a gasoline price spike before the summer vacation season, said Jeff Schuster, executive director of global forecasting for J.D. Power and Associates. "It is still viewed as a shorter-term situation that will likely continue to fluctuate up and down."

Still, a shrinking market and any move away from trucks spells trouble for General Motors Corp., Ford Motor Co. and DaimlerChrysler AG's Chrysler Group, all of which rely more on trucks for profits than their Asian competitors. Continued high gas prices could harm restructuring efforts under way at all three companies, the analysts said.

At Ferndale Honda, owner Charlie Pernik said he took three SUVs as trade-ins last week from people who wanted to get rid of them because they cost too much to run.

A block away at Ed Schmid Ford, President Gerard Schmid said that, when gas prices spike, SUV and truck owners historically start asking about trading for more fuel-efficient models, regardless of the cost. "We're just starting" to see the trend begin, said Schmid, who predicted his sales for the month would be flat to last May.

Overall, Toprak predicted a double-digit decline in May for Ford as it tries to cut low-profit sales to rental companies. GM, which is doing the same thing, should see a small rise, while Chrysler is likely to be up around 7 percent on the strength of its Jeep brand and because it hasn't cut fleet sales.

Toyota Motor Corp. should see slower growth than the customary double digits, mainly because it had a strong May last year, Toprak said. He also predicted small declines for Honda Motor Co. and Nissan Motor Co.

---- INDEX REFERENCES ----

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NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Gasoline (1GA40); Oil (1OI41); Retail Banking Services (1RE38); Automotive Fuels (1AU95); Transportation (1TR48); Banking (1BA20); Oil & Gas Prices (1OI34); Automotive Retail & Distribution (1AU77); Financial Services (1FI37); Land Transportation (1LA43); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Passenger Transportation (1PA35); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29); Automotive Retail (1AU31); Four Wheel Drive (1FO31); Consumer Finance (1CO55))

REGION: (North America (1NO39); Americas (1AM92); USA (1US73); Michigan (1MI45))

Language: EN

OTHER INDEXING: (CHRYSLER; CHRYSLER GROUP; CHRYSLER SEBRING; DAIMLERCHRYSLER AG; FORD MOTOR CO; GENERAL MOTORS CORP; GM; HONDA MOTOR CO; IAN KAMINSKY; KAMINSKY; NISSAN MOTOR CO; PETROLEUM; SUV; TOYOTA MOTOR CORP; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE) (Charlie Pernik; Gerard Schmid; Industry; J.D. Power; Jeff Schuster; Jesse Toprak; McManus; Schmid; Toprak; Toyota Camry; Walter McManus)

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May 5, 2007

Section: A SECTION

Stuck in the slow lane
GM, Congress in denial about shift to fuel-efficient cars

If it makes the experience less painful, pretend you're not paying \$3 a gallon for gas. And, by all means, ignore the warnings that prices might rise to \$4 a gallon this summer.

Silly advice? Sure. But that's essentially the strategy General Motors embraced for years, says Walter **McManus**, a fuel-economy analyst who from 1989 to 1999 worked for the world's former No. 1 automaker.

In an interview this year with MSNBC, **McManus** recalled that GM executives refused to believe surveys showing that many consumers wanted fuel-efficient vehicles. The officials dismissed those findings even after gas prices rose and sales of once-popular sport utility vehicles plunged.

"We had data about consumers' preference about fuel economy, but we chose to ignore it," **McManus** said. "We thought it was an anomaly."

That stubbornness and denial cost GM and other auto manufacturers dearly.

"The overall fuel-economy leader is Honda, and then comes Toyota and Nissan and then the Big Three," **McManus** said. "And which of those automakers is making all the money out there?"

Not GM, or the other U.S. car companies that refused to accept reality. Preliminary sales figures for the first quarter of 2007 show that Toyota sold more vehicles worldwide than GM -- for the first time ever.

Unfortunately, a long line of leaders in the White House and Congress adopted the view that what's an anomaly for General Motors is an anomaly for America.

Despite numerous signs of trouble ahead, our nation's leaders have left fuel-economy standards virtually unchanged for more than 30 years.

They've argued that the focus should be on finding more oil, not using less.

And they're at it again. The Bush administration is preparing to lease 8.3 million acres of the central Gulf of Mexico

that Congress approved for drilling last year. White House officials are also now proposing to open four times that many acres off the coasts of Virginia and Alaska to oil rigs.

Proponents say the plan could generate 10 billion barrels of oil over 40 years. Sound impressive? That's the equivalent of 16 months of U.S. consumption.

The expansion of drilling will prolong -- not ease -- our addiction to oil. It will also fuel the delusion that the price increases we're experiencing are a mere anomaly.

A more intelligent approach is under discussion on Capitol Hill, where the Senate Commerce Committee will hold a hearing Tuesday on a proposal to raise the average fuel efficiency for all new vehicles to 35 mpg from 25 mpg by 2018.

But even that goal is modest, given the urgent need to end our reliance on oil-producing countries hostile to the United States.

Is it possible to produce vehicles with better fuel efficiency in a shorter time?

Yes. It's already happening -- in Europe.

According to the Civil Society Institute, an energy and environmental think tank, 113 vehicles on the market in Europe exceed 40 mpg. Two-thirds of those vehicles are built by U.S.-based manufacturers or by foreign automakers with substantial sales in our country, according to MSNBC.

All of the vehicles meet or exceed U.S. safety standards, the institute reported. Some might need redesigns to meet American tastes, but that should be achievable.

Shifting to more fuel-efficient vehicles, while pursuing alternatives to fossil fuels, will require major adjustments for manufacturers, consumers and lawmakers.

But the adjustments are overdue. Unless, of course, we're content to pretend that our energy troubles are just an anomaly.

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP

NEWS SUBJECT: (Government (1GO80); Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Land Transportation (1LA43); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Passenger Transportation (1PA35); Transportation (1TR48); Automobiles (1AU45); Automotive (1AU29); Four Wheel Drive (1FO31))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73))

Language: EN

OTHER INDEXING: (CIVIL SOCIETY INSTITUTE; CONGRESS; GENERAL MOTORS; GM; MSNBC; SEN-

ATE COMMERCE COMMITTEE; WHITE HOUSE) (Alaska; Bush; McManus; Proponents; Silly; Sound; Stuck; Walter McManus)

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May 2, 2007

Section: A

Hybrid makers urge tax credits
High-tech cars could use boost to get people to shift from gas

Bob Dart, Cox News Service

WASHINGTON -- Plug-in hybrid? Biodiesel? Hydrogen? Electric? Automotive visionaries urged senators Tuesday to use tax credits to stimulate a variety of vehicle technologies and fuels for a post-gasoline America.

The federal government shouldn't try to "pick a winner" for cars of the future, and instead should pass "technology-neutral" policies to encourage alternative ways to increase fuel efficiency and cut greenhouse gas emissions, witnesses told a Senate Finance subcommittee.

The government should also levy polluter fees on those who buy "dirty" vehicles, the witnesses said.

"There is more than enough evidence that consumers and automakers respond to incentives and disincentives," testified Walter **McManus**, director of the Automotive Analysis Division of the University of Michigan Transportation Research Institute.

Federal policies have actually worked against development of non-polluting advanced-technology cars, said Martin Eberhard, co-founder of Tesla Motors Inc., makers of electric cars.

"Until 2006, taxpayers who purchased electric cars could claim up to a \$4,000 tax credit," said Eberhard. "In 2006 this deduction was reduced to \$1,000, and now it is gone."

Eberhard said his firm's first model, the Tesla Roadster, is a two-seat convertible designed to be faster than a Porsche or Ferrari but with twice the energy efficiency of a Prius, a Toyota hybrid powered by both gasoline and batteries. But the Roadster's price tag is \$92,000, so the market is limited, he conceded.

"Tesla's second model will be a roomy four-door family car starting at \$50,000 to be manufactured in our own plant in New Mexico beginning in 2009," he said.

He urged Congress to restore the \$4,000 credit for purchase of an electric car and to add another \$5,000 tax credit for an electric car with at least a 100-mile range. He said the Tesla Roadster has a range of more than 200 miles before

needing a recharge.

Likewise, Mark Chernoby, vice president for advanced vehicle engineering for DaimlerChrysler Corp., urged Congress to use the tax code to encourage sales of vehicles using "clean diesel technologies."

"Today's advanced-technology clean diesels achieve 20 to 40 percent better fuel economy than an equivalent gasoline engine," said Chernoby. "A diesel Grand Cherokee will use 418 fewer gallons of fuel each year than the gasoline-powered Grand Cherokee."

However, an advanced technology diesel engine costs several thousand dollars more than an equivalent gas engine and diesel fuel costs more than gas, he said. A tax credit to encourage drivers to buy advanced diesel autos would end up helping the environment, Chernoby concluded.

David Vieau, CEO of A123Systems, said tax incentives could also spur sales of his company's "supplemental battery module" that could boost a hybrid car's efficiency.

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COMPANY: DAIMLERCHRYSLER CORP; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG; CHRYSLER GROUP

INDUSTRY: (Oil (IOI41); Gasoline (1GA40); Land Transportation (1LA43); Automotive Alternative Fuels (1AU34); Environmental (1EN24); Environmental Solutions (1EN90); Electric Vehicles (1EL48); Automotive Fuels (1AU95); Downstream Oil (IDO72); Oil & Gas (IOI76); Passenger Transportation (1PA35); Automotive Technology (1AU48); Transportation (1TR48); Automobiles (1AU45); Automotive Environmental Initiatives (1AU68); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73))

Language: EN

OTHER INDEXING: (Walter McManus; Martin Eberhard; David Vieau) (AUTOMOTIVE ANALYSIS DIVISION; CONGRESS; DAIMLERCHRYSLER CORP; ROADSTER; SENATE FINANCE; TESLA; TESLA MOTORS INC; TESLA ROADSTER; TOYOTA; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE) (Automotive; Chernoby; David Vieau; Eberhard; Grand Cherokee; Likewise, Mark Chernoby; Martin Eberhard; Walter McManus) (WASHINGTON; New Mexico; us; usa; na; us.pa; us.pa.statcl; us.dc; us.nm; us.dc.wshdc)

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April 3, 2007

Section: A

Ruling Undermines Lawsuits Opposing Emissions Controls

FELICITY BARRINGER; Nick Bunkley contributed reporting from Detroit.

Yesterday's Supreme Court ruling on carbon dioxide emissions largely shredded the underpinning of other lawsuits trying to block regulation of the emissions and gave new momentum to Congressional efforts to control heat-trapping gases linked to climate change.

Environmental groups and states that have adopted controls on carbon dioxide emissions from vehicle tailpipes responded with jubilation, while the auto industry and some of its backers, like Representative John D. Dingell, the Michigan Democrat who is chairman of the House Energy and Commerce Committee, offered statements of resigned disappointment.

"This is fantastic news," said Ian Bowles, the secretary of environmental affairs for Massachusetts, the state that had petitioned the Environmental Protection Agency to control the emissions from cars and trucks, which represent slightly less than one-quarter of the country's total heat-trapping gases.

The E.P.A. had argued that it had no authority to do so under the Clean Air Act, and that even if it did, such regulation would run afoul of other administration plans to combat climate change. The Supreme Court rejected those arguments.

"You've seen the Bush administration hiding behind this argument to avoid action, and this puts that to rest," Mr. Bowles said.

Pennsylvania's secretary of environmental protection, Kathleen McGinty, added, "We hope it means any further opposition and challenge to the legal standards will go away and we can get about the job of cleaning up the auto fleet and making a dent in greenhouse-gas pollution."

The arguments rejected by the court have been invoked in other legal challenges, including a case pending in California in which auto industry trade groups argue against that state's law controlling carbon-dioxide emissions from cars, and one in the United States Court of Appeals for the District of Columbia Circuit, where electric utilities are fighting the E.P.A.'s authority to regulate their emissions of heat-trapping gases like carbon dioxide.

Both cases had been stayed awaiting yesterday's ruling.

Some companies may now find new affection for proposals in Congress for a cap-and-trade system to aid emissions control. Under this type of system, companies that had reduced emissions beyond a set limit could sell credits earned by their excess reductions to companies that failed to meet emissions limits.

"This flips the debate from an environment in which Congress must act if there is to be federal action," said Tim Profeta, the director of the Nicholas Institute for the Environment at Duke University, "to one in which the E.P.A. can act as soon as an administration friendly to the concept is in power."

"If there is a President Clinton or President McCain," Mr. Profeta added, "he or she doesn't have to go to Congress to get action."

The reaction from Capitol Hill underscored this point.

"While I still believe Congress did not intend for the Clean Air Act to regulate greenhouse gases, the Supreme Court has made its decision and the matter is now settled," Mr. Dingell said in a prepared statement. "Today's ruling provides another compelling reason why Congress must enact, and the president must sign, comprehensive climate change legislation."

Senator Barbara Boxer, Democrat of California and a sponsor of the most stringent of the global-warming proposals currently before Congress, said in a statement: "This decision puts the wind at our back. It takes away the excuse the administration has been using for not taking action to deal with global-warming pollution."

Another prod for federal action is the likelihood that California will be able to use the new ruling to parry legal challenges to its new law calling for a cut of nearly 30 percent in carbon dioxide emissions on passenger vehicles sold in the state starting in 2016. A dozen other states, including Connecticut, New Jersey and New York, have enacted laws adopting the California standard. These states are home to more than a third of the vehicles sold in the United States.

But before those standards can take effect, the environmental agency must grant the states a waiver.

"I am very encouraged by the U.S. Supreme Court's decision today that greenhouse gases are pollutants and should be regulated by the federal government," said Gov. Arnold Schwarzenegger of California, a Republican. "We expect the U.S. E.P.A. to move quickly now in granting our request for a waiver."

The prospect of separate state and federal emissions standards is one of Detroit's worst nightmares.

Walter **McManus**, director of automotive analysis for the Transportation Research Institute at the University of Michigan, argued that the environmental agency was best suited to regulate automotive emissions and fuel economy.

"They are the ones who really have the expertise about fuel economy and greenhouse gases," Mr. **McManus** said.

Chart/Photos: "Yesterday's Opinion"

THE MAJORITY

SOUTER

GINSBURG

STEVENS

KENNEDY

BREYER

"E.P.A. has offered no reasoned explanation for its refusal to decide whether greenhouse gases cause or contribute to climate change. Its action was therefore 'arbitrary, capricious . . . or otherwise not in accordance with law.'" Opinion delivered by Justice Stevens

DISSENT
SCALIA
ROBERTS
ALITO
THOMAS

"Apparently dissatisfied with the pace of progress on this issue in the elected branches, petitioners have come to the courts claiming broad-ranging injury, and attempting to tie that injury to the government's alleged failure to comply with a rather narrow statutory provision. I would reject these challenges as nonjusticiable. Such a conclusion involves no judgment on whether global warming exists, what causes it, or the extent of the problem." Chief Justice Roberts, joined by the rest

"The court's alarm over global warming may or may not be justified, but it ought not distort the outcome of this litigation. This is a straightforward administrative-law case, in which Congress has passed a malleable statute giving broad discretion, not to us but to an executive agency. No matter how important the underlying policy issues at stake, this court has no business substituting its own desired outcome for the reasoned judgment of the responsible agency." Justice Scalia, joined by the rest

---- INDEX REFERENCES ---

NEWS SUBJECT: (Legal (1LE33); Legislation (1LE97); Government (1GO80); Weather & Climate (1WE93); Judicial (1JU36); Economics & Trade (1EC26))

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Section: EDITORIAL

U.S. AUTOMAKERS STILL DON'T GET IT

Tommy Denton tommy.denton@roanoke.com 981-3377

When I pulled into the Gulf station in Waco, Texas, that August afternoon of 1964 to begin my freshman year in college, I paid 18 cents per gallon to fill up my '54 Chevy.

Granted, Waco stations were in the midst of a stiff gas war. When normalcy returned, the per-gallon price shot up to 28 cents, but even at 17 miles per gallon, a dollar's worth of gas in those days would suffice for a driver on a tight budget.

Within a decade, the Organization of Petroleum Exporting Countries conspired to change the energy situation forevermore with the oil embargo. Long lines at gas stations nationwide and assorted rationing schemes revealed a vulnerability that grabbed the attention of American consumers as only rude necessity could.

Congress demanded that U.S. automobiles become far more energy-efficient. The average vehicle mileage required under the 1970s standards rose from the teens to the mid-20s -- and then sat there.

Thirty years later, after a spasm of gluttonous gorging of fuel to power SUVs and other muscle machines, the world's most profligate petroleum consumer has fallen back into vulnerability.

Rather than applying the basic lesson that those who eat too much should eat less, much of the American business mind has been dedicated to finding alternative fuels to sate the nation's ravenous energy appetite.

Last week, however, a bipartisan group of more than 40 members of the U.S. House -- including Virginia Republicans Tom Davis and Frank R. Wolfe -- took the initiative to pursue a novel, common-sense approach: consuming less.

Led by U.S. Reps. Edward Markey, D-Mass., and Todd Platts, R-Pa., the group co-sponsored a bill to increase the U.S. fleetwide average to 35 miles per gallon by model year 2018. After that, to the extent feasible and cost-effective, the standard would increase by 4 percent annually.

The National Academy of Sciences has reported that such standards are cost-effective and achievable without sacrificing safety or performance.

Yet that wailing and gnashing of teeth you hear in the distance is the resistance by General Motors chief Rick Wagoner against more disciplined mileage standards, preferring instead the use of biofuels and a spectrum of incentives to lower dependence on imported oil.

"Many of the recent legislative proposals to increase [fuel efficiency] requirements by 4 percent per year or more," Wagoner told a House committee last week, "would be extraordinarily expensive and technically challenging to implement."

That's roughly the same spiel spun by representatives of the U.S. auto industry back in 1975. They were wrong then, with those modest standards having reduced consumption by 2.8 million barrels of oil a day and lowered carbon dioxide emissions by 7 percent. As suggested by the National Academy of Sciences, the industry executives are just as wrong today.

No mystery shrouds the reason for the financial plight of GM, Ford and Chrysler: They engineered a business model that exploited once-cheap gasoline to attract customers to big, heavy, fuel-guzzling behemoths. They have been irresponsibly slow to abandon the business plan.

Walter **McManus**, a former GM market analyst who conducted research at the University of Michigan, reported recently that if the U.S. automakers increased their energy efficiency to accommodate increasingly conservation-minded customers, they could collectively increase profitability by \$2 billion in model year 2010. Following their current plans, **McManus** concluded, they are projected to lose \$3.6 billion that year.

The industry's preferred options call for conversion to biofuels, requiring them to make relatively low-investment modifications to existing technology, and macro solutions to climate perils that shift emphasis from auto emissions to major energy producers such as power plants and refineries.

In the local idiom, that's called dodging responsibility for the mess they're making. Besides, biofuels like ethanol are 20 percent to 30 percent less efficient than gasoline in mileage performance. Their refining process also consumes significantly more energy per unit to produce than gasoline, further diminishing their ultimate efficiency as a motor fuel.

Corporate agriculture and its influence on Capitol Hill may benefit financially, but the rest of the country should examine all rosy scenarios with clear-eyed skepticism.

The whole point, which the U.S. auto industry continues to evade, is to burn less fuel, not pass the buck.

Denton's column appears in the Sunday and Tuesday editions of The Roanoke Times.

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP

NEWS SUBJECT: (Major Corporations (1MA93))

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Section: BIZ; BUSINESS

SENATORS GRILL AUTOMAKERS ON INCREASING FUEL ECONOMY
ENERGY PANEL QUESTIONS EXECS

January 31, 2007

WASHINGTON - U.S. senators sharply questioned executives from General Motors Corp., Honda Motor Co. and other companies Tuesday about the need for higher fuel economy standards for cars and trucks, with some suggesting that an increase would improve the fortunes of Detroit's automakers.

The first hearing by the Senate Energy Committee was meant to gather information on what Congress can do to ease the nation's growing thirst for energy. The panel produced a range of options, including tougher standards, more research funding for batteries and new forms of biofuels.

But many of the senators returned again and again to increasing fuel economy standards as the first move, and they pressed the auto industry about what increases it would accept. Several lawmakers have introduced bills that would raise standards to as high as 40 miles per gallon for passenger cars.

"It seems we call upon the government ... to do a whole host of things, but it seems we are expected to do so without very much in return in the form of higher fuel efficiency standards from the industry," said Sen. Bob Menendez, D-N.J. "I think this is a shared responsibility."

"Maybe we need to help you help yourself by pushing these standards," said Sen. Gordon Smith, R-Ore., to GM's executive. "It sure seems to me we're not helping you by backing off."

The hearing was the first in what promises to be a long effort by Congress to wean the United States from foreign sources of energy and deal with concerns of global warming. With President George W. Bush proposing a goal of a 4% annual increase in fuel economy standards, the auto industry and outside observers expect Congress to act on some sort of proposal this year.

Beth Lowery, GM's vice president for environment and energy, said the automaker was committed to improving the efficiency of its vehicles, but wanted any decisions about fuel economy rules left to federal regulators - a key point for automakers. She also said the government should pay for an effort to study and produce next-generation batteries for electric vehicles and expand research and supply sources of biofuels.

John German, Honda's manager of environmental and energy analysis, said his company thinks higher fuel economy standards are the best way to reduce Americans' demand for fuel and that Honda already has surpassed most standards. But when asked by Sen. Lisa Murkowski, R-Alaska, whether Honda supported calls for an increase to 40 m.p.g., German agreed with GM that the final decisions should be made by regulators.

Even expert witnesses disagreed during the hearing. Walter **McManus**, a researcher at the University of Michigan's Transportation Research Institute, told the senators that Detroit automakers had underestimated the value of improved fuel economy to their customers, a misstep that he said triggered much of the financial distress at GM, Ford Motor Co. and the Chrysler Group.

"If they had been focused on fuel efficiency much more than they had in the last few years, they would be far better off than they are," **McManus** said.

But David Greene, a corporate fellow at the Oak Ridge National Laboratory, said automakers had simply responded to consumers, who did not place great value on fuel economy improvements when buying a vehicle. He said that federal regulators should be allowed to set new standards and consider higher fuel taxes and that today's technology won't accomplish what lawmakers hope it will.

"As amazing as today's technologies are, they are still not up to the challenge of climate change or achieving sustainable energy for the world's growing transportation demands," he said.

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ILLUSTRATION: Photo

CAPTION: Beth Lowery

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---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CAPITAL TRUST D; FORD MOTOR CO (BELGIUM) SA; OAK RIDGE NATIONAL LABORATORY; FORD MOTOR COMPANY OF CANADA LTD; ASTON MARTIN LAGONDA LTD; FORD MOTOR CO; HONDA MOTOR CO LTD; HONDA; FORD MOTOR CO AS; DAIMLER AG; MOTORS LIQUIDATION CO; GENERAL MOTORS CORP

NEWS SUBJECT: (Legislation (1LE97); Government (1GO80); Major Corporations (1MA93); Economics & Trade (1EC26))

INDUSTRY: (Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Oil & Gas Regulatory (1OI37); Automobiles (1AU45); Alternative Energy Sources (1AL05); Oil & Gas (1OI76); Transportation (1TR48); Passenger Transportation (1PA35); Automotive Environmental Initiatives (1AU68); Electric Vehicles (1EL48); Natural Resources (1NA60); Automotive Regulatory (1AU33); Freight Transportation (1FR88); Manufacturing (1MA74); Transportation Regulatory (1TR42); Transportation New Technology (1TR05); Environmental (1EN24); Automotive Alternative Fuels (1AU34); Automotive Models (1AU61); Land Transportation (1LA43); Freight Transportation Regulatory (1FR22); Environmental Solutions (1EN90); Automotive Technology (1AU48); Automotive Fuels (1AU95); Trucking (1TR88))

REGION: (Americas (1AM92); USA (1US73); Michigan (1MI45); North America (1NO39))

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OTHER INDEXING: (CAPTION; CHRYSLER GROUP; CONGRESS; FORD MOTOR CO; GENERAL MOTORS CORP; GM; HONDA; HONDA MOTOR CO; HYDE; OAK RIDGE NATIONAL LABORATORY; SENATE ENERGY COMMITTEE; UNIVERSITY OF MICHIGANS TRANSPORTATION RESEARCH INSTITUTE) (Beth Lowery; Bob Menendez; Contact; David Greene; George W. Bush; German; Gordon Smith; INCREASING FUEL ECONOMY ENERGY PANEL QUESTIONS; John German; Lisa Murkowski; McManus; SENATORS GRILL AUTOMAKERS; Walter McManus)

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January 21, 2007

Gas prices hit Big Three hard, too

High pump prices, volatility prove costly to carmakers

A weekly interview on a topic in the news, this week with Walter S. **McManus**, director of the automotive analysis division at the University of Michigan's Transportation Research Institute.

News Staff Reporter

With the North American International Auto Show finishing up in Detroit this weekend, world attention has been focused on new developments in the auto industry, including fuel efficiency of the new models. Research by Walter **McManus** and his University of Michigan colleagues over the last several years has showed that gasoline prices have an impact on more than just consumers - they also affect automakers. The researchers have studied the relationship between volatile gas prices and the industry's health, and predicted the increasing market for fuel-efficient and hybrid vehicles.

Q: How have gas prices affected the Big Three?

A: We did a major study on how oil prices affect automakers' prices and jobs. We looked at what would happen if the price of gas was averaging (approximately) \$1.96. Then we looked at what happen if prices were ... over \$3. We predicted from that if the price went above \$3, the domestics would lose \$7 billion to \$11 billion. We were wrong; since (last's year gas price spike), they have lost \$20 billion and that's just Ford and GM. So we were way under in the vulnerability.

Q: Are volatile fuel markets a problem for the automakers?

A: Some of them say it's all about volatility. By having fluctuating markets you increase the uncertainty, so (consumers) are reluctant to buy vehicles at all. It does affect sales. Volatility creates greater risk, but again I maintain that if you have a more fuel-efficient fleet ... then not just high prices but volatile prices are less of a threat. ... Starting in 2002, they were cutting prices and there was the biggest increase in incentives ever, and they increased much more in less fuel efficient vehicles. So people kept buying them. The industry tends to point out the number of SUVs sold, not the actual profits. So it finally caught up with them.

Q: So why don't they just make more fuel-efficient vehicles?

A: One of the obstacles is since 2001 they misread the signals. Fuel prices were rising, but they kept unit sales going. They were all coming out with new full-size pickups and SUVs. And GM has already cut production plans for SUVs. So they went ahead and planned while prices were rising and while profit margin on SUVs was falling dramatically.

Q: With gas prices at two-year lows now, how does that affect consumer sentiment for vehicle choice? Do you think people are looking more seriously at more fuel efficient cars nowadays?

A: We had an El Nino mild winter, so heating oil needs are much lower, so the price is down. There will be more oil to make gasoline. But that's a temporary thing. Next year we could have a winter like we did last year or the year before. So it's probably a temporary drop and it's also part of the volatility. It will encourage some SUV sales. But are the auto companies going to say now we can breathe easy? ... Even if prices were \$1.50, we're better off with more fuel-efficient vehicles rather than the current mix of vehicles. And when it's \$3 they are definitely better off having more fuel-efficient vehicles. And we don't know what it's going to be in five years.

Q: So what do you drive?

A: Everybody wants to know that. It's a Honda Accord hybrid, and my 20-year-old son thought it was the coolest thing ever when I got it.

Contact Tracy Davis at 734-994-6856 or tdavis@annarbornews.com

---- INDEX REFERENCES ---

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Automotive Fuels (1AU95); Automotive Models (1AU61); Downstream Oil (1DO72); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Science (1SC89); Transportation (1TR48); Science & Engineering (1SC33); Oil & Gas Prices (1OI34); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29))

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January 17, 2007

Survey: Gas prices will pass \$5 a gallon by 2020

Economy standards to rise, but perhaps not fast enough, researcher says

News Staff Reporter

Talk about gas pains.

Fuel prices will be more than \$4 per gallon within eight years and more than \$5 a gallon by 2020, a University of Michigan survey of industry experts predicts.

The antacid that might help ease the pinch, though, is that fuel economy standards are also expected to rise, according to the U-M Transportation Research Institute's survey, which polled automobile manufacturers, suppliers and other experts.

Manufacturers' fleets now must average 27.5 miles per gallon. That will jump to 33 mpg in 2015 and 38 mpg in 2020, the survey predicted. For trucks, standards will rise from 21.6 mpg to 27 mpg in 2015 and 31 mpg in 2020.

Researcher Bruce Belzowski said the figures were adjusted to be in 2006 dollars, so the actual numbers could be higher.

Those polled also agreed that around the \$4 mark will be the point at which fuel economy becomes of primary importance to consumers.

The survey also predicted there will be increasing outsourcing of engineering and that alternative fuel vehicles will be a much larger portion of the U.S. fleet - more than half - by 2020. Most will be advanced diesel and hybrid technologies.

It is not clear that newer technologies and more sophisticated traditional engines will be sufficient to meet the increased fuel economy standards, said Walter **McManus**, director of the institute's Automotive Analysis Division.

"This survey shows that though manufacturers are developing alternative powertrains, they may not be working fast enough to meet the challenges imposed on them by government regulations or by potential dramatic increases of fuel prices," **McManus** said. "The auto industry may be operating under a false - and potentially fatal - assumption that fuel economy is not a high priority."

Tracy Davis can be reached at tdavis@annarbornews.com or 734-994-6856.

---- INDEX REFERENCES ---

INDUSTRY: (Oil (1OI41); Oil & Gas Prices (1OI34); Gas (1GA99); Oil & Gas Market (1OI62); Automotive Fuels (1AU95); Downstream Oil (1DO72); Oil & Gas (1OI76); Downstream Gas (1DO31))

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December 17, 2006

Section: Calgary Business

Pickup wars: F-Series under fire as rivals crank up the pressure

Tom Krisher

DETROIT

Ask those who guard Ford Motor Co.'s corporate jewel, the pickup truck, and they say to a person that the struggling company has no intention of relinquishing its No. 1 spot.

But Ford's F-series trucks are under an attack seldom seen in the company's 103-year history, mainly from domestic rival General Motors Corp. and Japanese nemesis Toyota Motor Corp.

GM's all-new Chevrolet Silverado and GMC Sierra pickups started arriving in showrooms last month. Toyota, which has been pummeling its counterparts with cars for several years but hasn't made much headway in trucks, last week started building a new full-sized Tundra pickup at a plant in Texas.

Both companies want to supplant the Ford F-150 as the top-selling vehicle in America, and some industry analysts predict they'll spend millions to do it. Ford, on the other hand, will spend millions to make sure they don't.

"This is really going to be an interesting couple of years," said Jim Sanfilippo, senior industry analyst for Bloomfield Hills-based Automotive Marketing Consultants Inc. "The reason the F-150 is put as the one under attack is because it's the biggest dog perennially."

At Dearborn, Mich.-based Ford, the stakes have never been higher. The company so far this year has sold 762,050 F-series pickups, accounting for 32.6 per cent of its sales.

But pickup, sport utility and other truck sales are down for the year as many buyers switch to more fuel-efficient vehicles with car underpinnings. During the first three quarters, Ford lost roughly \$7 billion US, and the company predicts red ink until 2009.

It intends to close 16 plants and is offering buyouts and early retirement packages to all 75,000 of its U.S. hourly workers as demand for its products shrinks.

"Obviously everyone knows the importance of the F-Series to the Ford Motor Co.," said Pat Schiavone, the company's truck design director who, like others in charge of trucks, feels pressure to maintain the lead.

But company leaders, he said, know that the truck team has been successful in the past.

"Instead of questioning us, they support us, and that ends up showing up in the product," he said.

Still, there are those GM folks on the other side of town who make pretty good trucks, too, and they've got brand-new ones to compete with a three-year-old F-150. Toyota, meanwhile, has figured out that building the trucks in the heart of pickup country, San Antonio, Texas, should help lure more buyers when the new Tundra makes its way to dealers early next year.

Walter **McManus**, an analyst at the University of Michigan Transportation Research Institute, said he has driven the new GM trucks, and they are loaded with technology including V-8 engines that cut to four cylinders whenever possible to

become more fuel efficient.

Ford, he said, is behind GM and DaimlerChrysler AG's Chrysler Group on fuel efficiency because it doesn't have the variable-cylinder engines. Toyota won't say if it has the technology in the new Tundra.

McManus said gas mileage is a factor in pickup-buying decisions, especially with those who aren't buying trucks strictly for work.

"If you get down to a choice between the Ford and the Tundra or a Chevrolet Silverado, fuel economy difference can be important," **McManus** said.

Ford officials say that in real-world driving conditions, the GM trucks don't have a fuel efficiency advantage because so many people use trucks for towing.

From Ford's perspective, the competitors' trucks are just now catching up to the F-150, and the company plans to tweak its flagship vehicle by adding features between now and 2008, when a new version comes out.

"They'll catch up to where I am if I stand still, but we're not going to stand still," said Pete Reyes, chief engineer of the redesigned F-Series Super Duty trucks that debut early next year. The heavier-duty work trucks account for 40 per cent of F-Series sales.

Ford also will advertise the F-series heavily at NASCAR and other sporting events.

"We will defend our leadership as we have for 29 years," said Ben Poore, Ford truck marketing manager.

Although they won't talk much about the new F-150, Ford officials say it will take cues from the new Super Duty trucks, with a larger grille and more aggressive look. The Super Duty has a new clean-burning and quiet diesel engine, but Ford officials won't say if the F-150 will get a similar powerplant.

Ford is keenly aware of how Japanese competitors, Toyota in particular, have begun to dominate the car market, Schiavone said.

"I don't think we're going to see a repeat of what happened with smaller cars, where we lost the market," he said. "You learn that lesson the hard way. We're just not going to let it happen."

Toyota will find the going much tougher when it comes to trucks, the market where the domestics still have great brand loyalty, Sanfilippo said.

"I don't think the domestics are going to be so easily overcome," he said. "This is going to be a real clash of the best of the best."

Photo: ; Photo: Toyota; Photo: Ford; Photo: GM

---- INDEX REFERENCES ----

COMPANY: TOYOTA DEUTSCHLAND GMBH; GIAIPHONG MOTOR JSK; CLOSED JOINT STOCK COMPANY FORD MOTOR CO; TOYOTA; TOYOTA ROMANIA SRL; DAIMLERCHRYSLER AG; AUTOTECH SRL; FORD MOTOR CO LTD; TOYOTA PAZARLAMA VE SATIS AS; GULF MEDICAL CO LTD; FORD MOTOR CO; GENERAL MOTORS CHILE INDUSTRIA AUTOMOTRIZ LDA; TUNDRA; TOYOTA LEASING GMBH; CHRYSLER GROUP LLC; TOYOTA MOTOR CORP; GM DESIGNING AND ENGINEERING PVT LTD; FORD MOTOR COMPANY SA DE CV; REAL MOTORS SPA; TOYOTA FINANCIAL SERVICES MEXICO SA DE CV; GULF METAL CRAFT G M C (L L C); TOYOTA DE VENEZUELA CA; TOYOTA MOTOR CORP; TOYOTA CHILE SA; DAIMLERCHRYSLER AG (RUSSIA); TOYOTA DO BRASIL LDA; DAIMLER AG; FORD MOTOR COMPANY S R O; TOYOTA MOTOR NORTH AMERICA INC; CABINET GINESTIE MAGELLAN PALEY VINCENT; MOTORS LIQUIDATION CO

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Section: Business

Ford tough put to test
GM, Toyota take aim at top-selling F-150

Tom Krisher / The Associated Press

DETROIT -- Ask those who guard Ford Motor Co.'s corporate jewel -- the pickup -- and they say the struggling company has no intention of relinquishing its No. 1 spot.

But Ford's F-series trucks are under an attack seldom seen in the company's 103-year history, mainly from domestic rival General Motors Corp. and Japanese nemesis Toyota Motor Corp.

GM's all-new Chevrolet Silverado and GMC Sierra pickups started arriving in showrooms last month.

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Both companies want to supplant the Ford F-150 as the top-selling vehicle in America, and some industry analysts predict they will spend millions to do it. Ford, on the other hand, will spend millions to make sure they don't.

"This is really going to be an interesting couple of years," said Jim Sanfilippo, senior industry analyst for Bloomfield Hills-based Automotive Marketing Consultants Inc. "The reason the F-150 is put as the one under attack is because it's the biggest dog perennially."

At Dearborn-based Ford, the stakes have never been higher. The company so far this year has sold 762,050 F-series pickups, accounting for 32.6 percent of its sales.

In Cedar Springs, John Tyson said he is not worried about Toyota's Tundra cutting into sales of the popular U.S. trucks he sells at the Vanderhyde Ford dealership.

"You've gotta go with what's been proven," he said. "If you're selling a good product, you don't have too much to worry about. There's nothing like a Ford truck."

"(Toyota) can say it's built in the United States, but everybody knows the money still goes back to Japan."

But pickup, sport utility and other truck sales are down for the year as many buyers switch to more fuel-efficient vehicles with car underpinnings.

During the first three quarters, Ford lost about \$7 billion, and the company predicts red ink until 2009.

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Toyota, meanwhile, has figured out that building the trucks in the heart of pickup country, San Antonio should help lure more buyers when the new Tundra makes its way to dealers early next year.

Walter **McManus**, an analyst at the University of Michigan Transportation Research Institute, said the new GM trucks are loaded with technology, including V-8 engines that cut to four cylinders whenever possible to become more fuel efficient.

Ford, he said, is behind GM and DaimlerChrysler AG's Chrysler Group on fuel efficiency because it does not have the variable-cylinder engines. Toyota won't say if it has the technology in the new Tundra.

McManus said gas mileage is a factor in pickup-buying decisions, especially with those who are not buying trucks strictly for work.

"If you get down to a choice between the Ford and the Tundra or a Chevrolet Silverado, fuel economy difference can be important," **McManus** said.

-- Press correspondent Matt VandeBunte contributed to this story.

--- INDEX REFERENCES ---

COMPANY: GRANDS MOULINS DE CORBEIL GMC; TUNDRA; GENERAL MOTORS CORP; DAIMLERCHRYSLER AG (RUSSIA); FORD MOTOR CO; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG; TOYOTA MOTOR NORTH AMERICA INC; CHRYSLER GROUP

NEWS SUBJECT: (Major Corporations (1MA93))

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OTHER INDEXING: (AUTOMOTIVE MARKETING CONSULTANTS INC; BLOOMFIELD HILLS; CHEVROLET SILVERADO; CHRYSLER GROUP; DAIMLERCHRYSLER AG; FORD; FORD MOTOR CO; GENERAL MOTORS CORP; GM; GMC; TOYOTA; TOYOTA MOTOR CORP; TUNDRA; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE; VANDERHYDE FORD) (Jim Sanfilippo; John Tyson; Matt VandeBunte; McManus; Pat Schiavone; Walter McManus)

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Business and the Environment
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November 1, 2006

Volume 17; Issue 11

Driving for profitability: automakers in the spotlight.

A recent report finds that the uncertainty over future energy and climate change policy in the United States is a major problem for investors and Wall Street analysts in assessing the value of auto companies. According to the report, analysts need better disclosure from auto companies about their strategies for managing these risks and capturing the corresponding opportunities worldwide.

In other news, improved fuel economy could be the answer to many of these woes. Meanwhile, hybrids continue to gain market share, with a little help, in some cases, from the boss.

Risks Assessed

The report, *Climate Risk and Energy in the Auto Sector--Guidance for Investors and Analysts on Key Off-Balance Sheet Drivers*, was produced by Ceres, a coalition of investors and environmental public interest groups. The report concludes: 1) regulatory uncertainty on climate change is a major problem for the auto sector; 2) flexibility in manufacturing is key for future profitability; and 3) investors need improved disclosure on the risks and opportunities posed by fuel prices and climate change.

Mindy S. Lubber is president of Ceres and director of the Investor Network on Climate Risk, which includes over 50 institutional investors managing nearly US \$3 trillion in assets. Lubber notes, "Given that many corporate CEOs now agree that mandatory climate change regulations are inevitable, Wall Street needs more clarity from [US] President Bush and Congress on the eventual structure of climate policy so analysts can assess the financial and competitive implications on auto companies accurately.... Investors are calling for policy certainty and better climate risk disclosure so analysts can better estimate the fair value of the auto companies in their portfolios."

One problem for US automakers is that they have less flexibility to meet changing regulatory and consumer demands than some of their foreign counterparts. The report notes that only two US auto plants, owned by Nissan and Honda, can rapidly switch from making SUVs to making fuel-efficient vehicles. "Steadily rising fuel prices since January 2002 have already shifted consumer demand away from large SUVs and pickup trucks, but US manufacturers responded not by shifting their future product plans but by lowering prices on the same inefficient vehicles they've been offering for years," explained Dr. Walter **McManus**, Director of Automotive Analysis for the University of Michigan Transportation Research Institute (UMTRI; Ann Arbor, Michigan, USA). "The SUV cash cow has turned out to be a Trojan horse."

The Ceres report analyzes three key trends that could affect the valuation of auto companies' securities. First, even though President Bush has called for a reduction in the United States' dependence on foreign oil, the International Energy Agency predicts that 95% of the world's economy may come to depend on oil from five or six politically volatile Middle Eastern nations. The US Energy Information Agency again raised its oil price forecast to more than US \$42 per barrel over the next 20 years. The high price of oil is expected to increase demands by US consumers for more fuel efficient cars. Ford Motor Company Sales Analysis Manager George Pipas notes, "If gas prices don't stabilize, I think it's going to be a very tough endeavor to sell mid-sized and full-sized SUVs."

The second trend cited by Ceres is that new energy independence measures and climate change regulations are taking effect around the globe. For example, the US Energy Policy Act of 2005 provides tax credits for fuel-efficient vehicles and creates new mandates and incentives for biofuels. Other developed countries are taking steps to reduce greenhouse gas (GHG) emissions and increase vehicle fuel efficiency. Eleven US states are adopting regulations to curb vehicle GHG emissions--regulations opposed by most automakers.

The third trend analyzed is that alternative technologies and fuels will result in "leaders and laggards." Automakers like Toyota and Ford have focused on hybrids and clean diesel, while General Motors (GM) has concentrated on gasoline/ethanol flex-fuel vehicles. Hydrogen fuel cells are still 10-20 years from commercial use.

For the full report, see www.ceres.org/pub/. For a summary of the report, see www.ceres.org/news/news_item.php?nid=169.

Can Better Fuel Efficiency Save Detroit?

In September 2006, UMTRI released a prospective study on US automakers' fleet efficiencies and profits. Its bottom line: financially strapped GM, Ford, and DaimlerChrysler (collectively the Big Three) could turn their losses to profits, at the expense of foreign car companies. The method? Improve fuel-economy performance across their model lineup. Ford would gain the most. But the Big Three stand to lose billions if they don't make the move.

High gasoline prices, coupled with their dependence on gas-guzzling SUVs and pickup trucks, have badly damaged their sales. This in turn more than wipes out their profits, according to **McManus**. "The findings of our report prove in sharp detail Detroit automakers' long-term vulnerability to volatile gas prices and show that improved fuel economy fleetwide--above and beyond current regulation--is the key not just to their survival but their success, even if the price of gas goes down."

The study, *Can Proactive Fuel-Economy Strategies Help Mitigate Fuel-Price Risks?*, uses three gasoline-price scenarios for 2010--\$3.10, \$2.30, and \$2.00 per gallon. **McManus** compares a business-as-usual approach, making only fuel-economy improvements mandated by law, with a proactive strategy, using off-the-shelf technology to strengthen fuel economy, without changing the projected vehicle mix.

If all automakers follow a proactive strategy, the report finds that Ford has more opportunities to improve fuel economy fleetwide than do GM or DaimlerChrysler. That is, Ford can narrow its deeper fuel-economy disadvantage against the Japanese automakers, compared to GM's or DaimlerChrysler's less stark disadvantages.

With gasoline at \$3.10 a gallon, annual profits would increase by \$1.4 billion at Ford, \$500 million at GM, and \$100 million at DaimlerChrysler. If the Big Three all go more fuel-efficient, Japanese automakers could lose up to \$600 million in the US market. Even at \$2.00 per gallon, by going fuel-efficient, the Big Three could increase profits by \$1.3 billion, while the Japanese could lose \$300 million.

However, if the Big Three follow a business-as-usual approach, the study shows that, at \$3.10 per gallon, US au-

tomakers could lose as much as \$3.6 billion in profits, compared with a smaller loss of \$800 million for Japanese automakers.

In the low-price scenario, with gas at \$2.00 per gallon, fuel-efficient domestic automakers would fare better than their Japanese counterparts, with profits between \$1.2 billion and \$1.4 billion, compared to \$300 million for the Japanese.

"What is surprising is that each automaker is financially safer if they follow a proactive fuel-economy strategy, regardless of what their competitors do," **McManus** said. "Sure, Ford might not capture sales if their competitors make a better car that has high fuel economy, but what is certain is that Ford cannot capture those sales without higher fuel economy."

At \$3.10 per gallon, a marketwide proactive fuel-economy strategy could save nearly 35,000 jobs at the Big Three, while costing foreign automakers with plants in North America more than 19,000 jobs. In contrast, business as usual could translate to job losses of 43,000, but only 1,900 job cuts at the foreign transplants.

The report recommends establishing a coalition of industry, labor, government, and nonprofits to develop federal policies to dramatically increase fuel economy for all US vehicles. "Automakers must decide their fuel-economy strategies for 2010 today, knowing neither the future fuel prices nor the decisions their competitors have made," **McManus** said. "With only cash on hand for one cycle of product development, as gas prices dip--for the moment--will these struggling automakers be tempted to remain dependent on their once-profitable gas guzzlers? Our report provides stark evidence that the riskiest thing domestic automakers could do is continue business as usual."

"Deploying new technologies takes time and money to accomplish, and time and money are in short supply in Detroit. While management is currently focused on cutting capacity through massive layoffs, they need to undertake a deep transformation to much more fuel-efficient fleets to avoid going under. The dilemma the Detroit automakers face is that while they may believe that they cannot afford to make fuel economy a high priority, in actuality, it turns out that they cannot afford not to."

For more information, see www.umich.edu/news/index.html?Releases/2006/Sep06/r091806b. A copy of the UMTRI study may be found at www.osat.umich.edu.

Electric Hybrid Vehicle Sales Up Dramatically

As a seeming testament to the conclusions of the UMTRI study, US sales of electric hybrid vehicles more than doubled last year. They represent just over 1% of all US vehicle sales. Registrations of new hybrid vehicles rose to 199,148 in 2005, a 139% increase from the year before, according to R. L. Polk, an automotive research firm. Five years earlier, only 7,781 hybrids were sold.

In 2005, R. L. Polk analysts predicted that hybrids would represent 30%-35% of the US market by 2015, but they now consider that estimate somewhat optimistic. Because the technology is still new, people tend to buy hybrids for reasons of emotion or prestige. With high gasoline prices, 80% of US buyers consider hybrids, but most buy traditional gasoline-powered cars. Despite tax credits and perks like the right to use high occupancy vehicle lanes, the higher up-front costs for hybrids are not yet sufficiently offset by the money saved on gasoline to tip the balance in most buyers' minds.

Toyota accounted for 70% of US hybrid sales in 2005, led by the Prius at 53% (with a six-month waiting list) and the Lexus RX400h at 9.7% of the market. The Honda Civic represented 12.8% of the market and the Ford Escape, 7.6%. Hybrid SUV sales took only a small portion of the hybrid market in 2005, but more models are being offered in 2006.

With sales of environmentally friendly cars exploding in the United States, and with a long Prius waiting list, Toyota

is working on 10 new hybrids from across its product line, including trucks. Globally, Toyota hopes to sell one million hybrids each year by 2011, including 600,000 in the United States. Honda sells three hybrids, while Ford has two hybrids in the market and three more in development. GM, DaimlerChrysler, and Nissan have also been developing hybrids. For more information, see "Hybrid Sales More

Than Doubled in 2005," at www.msnbc.msn.com/id/12615907/. See also www.automotive.com/features/90/auto-news/20307/index.html.

Employer Incentives Lure Hybrid Vehicle Buyers

Bank of America is offering thousands of employees near Boston (Massachusetts, USA) \$3,000 to buy a hybrid car. Anne Finucane, Bank of America's global marketing and corporate affairs executive, explained, "We want to be a part of the solution, not a part of the problem." Bank of America will test its program in Boston, Los Angeles, and its Charlotte (North Carolina) headquarters, which together have about 21,000 eligible employees. If it succeeds, the bank plans to offer it to all 200,000 employees nationwide.

Bank of America joins a number of companies nationally, including Google and Timberland, that offer perks to workers who drive fuel-efficient vehicles. Timberland gives hybrid-car buyers a \$3,000 rebate and lets them park in special reserved spaces near the front of the building. Some auto insurers are offering rate discounts. Combined with federal tax credits of up to \$3,400, corporate programs can make hybrid cars cheaper than their traditional counterparts, rather than costing several thousand dollars more.

Hybrid discounts do not financially benefit companies, but they boost their environmental image and improve employee morale, according to David Vogel, a professor at the Haas School of Business at the University of California at Berkeley (California, USA). "It represents a relatively inexpensive and highly visible way for a company to proclaim its green commitments," he said.

For more information, see www.boston.com/business/articles/2006/06/07/incentives_come_non-stop_for_buyers_of_hybrids/.

CONTACTS: Ceres, 99 Chauncy Street, 6th Floor, Boston, MA 02111, USA. Tel: +1 617 247 0700; Fax: +1 617 267 5400; Web site: www.ceres.org.

---- INDEX REFERENCES ---

COMPANY: BANK OF AMERICA CORP; FORD MOTOR COMPANY OF CANADA LTD; ASTON MARTIN LAGONDA LTD; FORD MOTOR CO; DAIHATSU MOTOR CO LTD; TOYOTA; DAIMLER AG; UNIVERSITY OF CALIFORNIA; HYBRID; GENERAL MOTORS CORP

NEWS SUBJECT: (Economic Policy & Policymakers (IEC69); Major Corporations (1MA93); Economics & Trade (IEC26))

INDUSTRY: (Environmental (1EN24); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Oil & Gas Market (1OI62); Automobiles (1AU45); Oil & Gas (1OI76); Oil & Gas Prices (1OI34); Land Transportation (1LA43); Automotive Models (1AU61); Transportation (1TR48); Passenger Transportation (1PA35); Automotive Environmental Initiatives (1AU68); Environmental Solutions (1EN90); Automotive Technology (1AU48); Electric Vehicles (1EL48); Downstream Oil (1DO72); Manufacturing (1MA74))

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OTHER INDEXING: (6TH FLOOR; ANN ARBOR; AUTO SECTOR; AUTOMOTIVE ANALYSIS; CONGRESS; CONTACTS; DAIMLERCHRYSLER; ELECTRIC HYBRID VEHICLE SALES; EMPLOYER INCENTIVES LURE HYBRID VEHICLE BUYERS; FORD MOTOR CO; GENERAL MOTORS; GM; HAAS SCHOOL OF BUSINESS; HYBRID; HYBRID SUV; INTERNATIONAL ENERGY AGENCY; INVESTOR NETWORK; MICHIGAN; SALES ANALYSIS; SUV; TOYOTA; TROJAN; UMTRI; UNIVERSITY OF CALIFORNIA; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE; US ENERGY INFORMATION AGENCY; USA) (Anne Finucane; Automakers; Bush; Ceres; Climate Risk; David Vogel; Deploying; Eleven; Ford; George Pipas; Google; Honda; Hydrogen; Lubber; McManus; Middle Eastern; Mindy S. Lubber; Mitigate Fuel-Price Risks; Nissan; R. L. Polk; Steadily; Street; Timberland; Wall Street; Walter McManus)

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COMPANY TERMS: BANK OF AMERICA CORP

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September 20, 2006

U. Michigan: U. Michigan professor formulates plan to save Big Three automakers

U-WIRE-09/20/2006-U. Michigan: U. Michigan professor formulates plan to save Big Three automakers (C) 2006 Michigan Daily Via U-WIRE

By Andrew Grossman, Michigan Daily (U. Michigan)

ANN ARBOR, Mich. -- Financial salvation for the Big Three automakers lies with more fuel-efficient cars, according to a University of Michigan study released Monday.

The study, authored by Walter **McManus**, a scientist at the University's Transportation Research Institute, found that Ford, General Motors and DaimlerChrysler could increase combined profits by up to \$2 billion in the 2010 model year by aggressively building cars that go above and beyond federal standards for fuel efficiency. That's almost two-thirds of General Motors 2005 loss of \$3.4 billion.

If the companies choose to only meet the federal standards, they could lose up to \$3.6 billion in profit, the study says.

American automakers have struggled recently as rising gas prices have driven consumers away from the inefficient trucks and sport utility vehicles that formed the base of their business. Car buyers have increasingly looked to smaller Japanese cars that get better gas mileage.

In the latest sign of the Big Three's woes, Chrysler, the car maker with the third-highest market share in America last year, announced Monday that it would slash its third-quarter production by 24 percent. This paves the way for Toyota, a Japanese firm, to move into third place at the end of the year, while Chrysler will drop to fourth. It also projected a \$1.5 billion loss for its U.S. division in the same quarter.

"Even the Big Three now acknowledge that high gas prices and their overdependence on fuel-inefficient SUVs and pickup trucks have accelerated their financial free fall," **McManus** said in a written statement.

The study looks at three different potential gas prices: \$3.10, \$2.30 and \$2. It argues that the Big Three automakers stand to increase revenues at all three levels, even if prices fall from their current national average of \$2.50.

The major Japanese car companies would likely see little change in revenue because their products are already fuel-efficient.

Spokespeople from Ford and Chrysler said the companies are already working toward producing more fuel-efficient

cars.

"Fuel economy has always been important," Chrysler spokesman Jason Vines said. "It's more important now than ever before."

Chrysler is collaborating with Mitsubishi and Hyundai on a new engine that would boost its cars' gas mileage substantially. The company also plans to introduce its first hybrid in 2008, a Dodge Durango SUV.

Ford, which recently announced plans to offer buyouts to all salaried employees and cut 10,000 salaried workers, also acknowledged the importance of producing cars that use less gas.

"We recognize the competitive advantage of building vehicles that are aligned with consumer demand, including vehicles that are fuel-efficient," Ford spokeswoman Kristen Kinley said in a written statement.

In June, Ford backed down from a pledge to produce 250,000 hybrid vehicles a year by the end of the decade. Instead, the company said it would focus more on alternative fuels like ethanol and bio-diesel.

The Big Three have often resisted calls to increase fuel economy because of the costs associated with developing new technology, choosing instead to promote trucks and SUVs.

But if the companies hope to survive, **McManus** said, that will need to change.

"Deploying new technologies takes time and money to accomplish, and time and money are in short supply in Detroit," he said. "While management is currently focused on cutting capacity through massive layoffs, they need to undertake a deep transformation to much more fuel-efficient fleets to avoid going under."

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---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; DAIMLERCHRYSLER AG

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September 19, 2006

Section: Business

Study Finds Threat to the Future of Ford

The carmaker will burn through its cash reserves if it fails to act quickly to raise fuel economy, according to the report.

John O'Dell
Times Staff Writer

Financially strapped Ford Motor Co. says it will boost introduction of new and revamped cars and trucks. But only by increasing the fuel economy of its vehicles well beyond federal requirements will the automaker avoid going under, a study from a respected academic and former industry insider said Monday.

Ford -- with the worst overall mileage ratings in the industry and the most models to improve -- needs to significantly boost its fuel economy, said Walter **McManus**, author of the University of Michigan study and director of the transportation institute's automotive analysis division.

The company has to act now, though, because with costs of \$1 billion to \$3 billion to significantly revamp existing models and develop new ones, Ford would burn through its \$20 billion in available cash by the time it retools its entire model lineup in the next four years, he said.

"If they don't bring out vehicles that fit the market this time, they don't have another shot," said **McManus**, a former General Motors Corp. economist and chief automotive market forecaster for J.D Power & Associates before joining the university.

While he raised questions about Ford's future, an article in the trade publication Automotive News suggested that the automaker's arch-rival, GM, might have a direct role in it by forging an unspecified alliance.

The opportunity to combine forces to pursue fuel-saving technologies could be one reason the two leading American automakers would consider teaming up, as suggested in the article.

The publication, citing unidentified sources, said that talks between Ford and GM, started last month, had since ended and that there was only a slim chance anything would come of them.

Several analysts who reviewed the brief report saw little likelihood of an outright merger. They raised antitrust issues as well as questions about the compatibility of the two automakers' corporate cultures, their competing dealership networks and their heavily overlapping, truck-heavy model lineups.

"I just don't know how combining manufacturing processes, or products, would help either one," said James Sourges, vice president of consulting firm Capgemini's Detroit-based global automotive practice and leader of its Ford unit.

Industry analyst Tom Libby of J.D. Power's Power Information Network said talk of an alliance "isn't a realistic topic."

"The idea of merging two organizations when each is in such a difficult state just doesn't seem feasible," he said of the companies, which have lost significant market share to Asian rivals while posting billions of dollars in losses this year.

Ford announced Friday that it was speeding up plans to shed workers and close factories, following GM in taking such measures.

Analysts said Ford and GM -- which are co-developing fuel-saving six-speed automatic transmissions -- could have a future in other, limited alliances.

"Ford needs some significant help, so who knows?" said David Cole, director of the nonprofit Center for Automotive Research in Ann Arbor, Mich.

Given the companies' many units -- engines, drivetrains, electronics -- there are areas in which they could collaborate, such as sharing parts, he said. Ford and GM, with fellow Big Three member Chrysler Group, already are partners in a federally supported effort to develop new technology and improve manufacturing.

Ford, which repeatedly has said that everything was on the table as it sought to reverse its fortunes -- including alliances with other auto companies -- declined to comment on the Automotive News report.

GM spokesman Brian Akre did not deny that such talks occurred but said company executives "routinely discuss issues of mutual interest with other automakers."

"As a policy, we do not confirm or comment publicly on those private discussions, which in many cases never lead anywhere," he said.

The University of Michigan study issued Monday said automakers could achieve the required fuel-efficiency improvements through widespread application of technologies such as low-friction engine lubricants; six-speed transmissions; variable-valve timing; and systems used now on some GM, Honda Motor Co. and Chrysler models to shut down some cylinders when a vehicle is cruising and doesn't need full power.

McManus, the study's author, said he was concerned that struggling American automakers might be tempted to forgo expensive fuel economy improvements if they saw sales of once-profitable pickup trucks and sport utility vehicles revive with gasoline prices that have dropped "for the moment."

Improved fuel economy that exceeds current regulations "is the key not just to their survival but their success, even if the price of gas goes down," he said.

If pump prices hover around \$3.10 a gallon for regular grade, Ford could attract new customers and increase its net earnings by \$1.4 billion a year in 2010 and beyond by delivering a rating of 26.6 miles per gallon for its cars and trucks combined, the report said. That would be a 12% increase from 23.7 mpg today.

With gasoline at \$2 a gallon, Ford could still profit, to the tune of about \$900 million a year.

Although prices have come down of late, the average for self-serve regular gasoline in California remained at \$2.848 a gallon during the week ended Monday and was \$2.497 nationally.

But if the U.S. auto companies simply stick to a business-as-usual game plan on the fuel economy front and improve their ratings to merely meet federal requirements through 2010, they could collectively lose as much as \$3.6 billion a year, **McManus** said.

Ford might not grow "if its competitors make better cars with higher fuel economy," he said, "but what is certain is that Ford cannot capture those sales without higher fuel economy."

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john.odell@latimes.com

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; FORD MOTOR CO; DAIMLERCHRYSLER AG; HONDA MOTOR CO LTD; CHRYSLER GROUP

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June 1, 2006

U. Michigan students petition to lower gas prices

By Mariem Qamruzzaman

ANN ARBOR, Mich., May 31, 2006 (Michigan Daily, U-WIRE via COMTEX) --Despite gas prices hovering close to \$3 a gallon, most University of Michigan students have not been deterred from filling up.

"Gas is like bread and milk," LSA junior Garrison Paige said. "People still need to get to work and school. I don't have a reason yet to change my habits."

Recognizing that Michigan residents are dependent on oil, Gov. Jennifer Granholm has developed solutions to ease the economic burden high gas prices are imposing on the state.

Granholm's main solution to curb gas prices is encouraging a cap on oil company profits. She also signed a bill May 3 that penalizes gas-station owners who price gouge by altering pumps to dispense less fuel than indicated on the gauge.

Although some University students are ambivalent, 272,858 Michigan residents signed Granholm's online petition to prompt President George W. Bush to put a cap on oil profits.

Gov. Granholm created the petition in response to oilmakers earning record prices because gas prices may be regulated on the federal level.

"Paying nearly \$3 per gallon while oil companies enjoy \$10 billion in tax breaks and rake in billions more in profits is just plain wrong," the governor said in a statement.

The governor sent her month-long petition to the White House Thursday.

"I think it's important to communicate to President Bush the problems we're having at the state level," said State Senator Liz Brater (D-Ann Arbor), who has backed much of the governor's gas legislation.

As the 2006 gubernatorial election quickly approaches, Granholm faces competition and criticism from Republican candidate Dick DeVos, who has proposed his own ideas for helping Michigan residents handle the costs of gas.

"The petition that you send to Washington does not make one bit of difference," Devos' Communications Director John Truscott said. "It's a publicity stunt. There's no meat behind it."

Some students were also doubtful about the petition.

"It looks good at face value," said Engineering senior Daniel Nemirovsky. "(A cap on profits) can have unforeseen consequences on other industries."

Nemirovsky said a change in the executive administration might be the solution to high gas prices.

Truscott said DeVos proposes suspending the state sales tax on gas after the first \$1.96 of each gallon of gasoline -- saving consumers about six cents per gallon.

But Granholm's campaign spokesman Chris DeWitt said this proposal would cut a substantial amount of funding to public education and police and fire programs, supported in part by state tax revenue.

Walter **McManus**, research scientist director at the University's Transportation Research Institute, said the governor's idea that Bush should cap oil profits could have negative consequences in the long run.

McManus said oil companies are investing in research for alternative fuels and new oil reserves.

But if Bush puts a cap on oil profits, he will reduce the incentive to find new oil because the expected profit from such an endeavor would decrease substantially, **McManus** said.

He added that the supply of oil will be reduced and price increases will be unavoidable in the long run.

McManus also explained the reason for a record in oil profits. Many oil companies bought stocks of oil years ago for much less than they are worth now, he said. By the time they sell the oil, the companies make a considerable profit.

Under DeVos's plan, **McManus** said consumers will save an average of \$36 a year. They can save more by driving more "smoothly" -- not accelerating or braking rapidly and driving at a constant speed. Based on his research, this could save consumers about \$133 a year.

At the local level, Mayor John Hieftje proposed ideas to encourage alternative modes of transportation, such as creating a rail transport system that travels to Detroit, Dearborn, the Metropolitan airport, Ypsilanti and Ann Arbor, Mich.

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INDUSTRY: (Oil (1OI41); Oil & Gas Prices (1OI34); Gas (1GA99); Oil & Gas Market (1OI62); Downstream Oil (1DO72); Oil & Gas (1OI76))

REGION: (USA (1US73); Michigan (1MI45); Americas (1AM92); North America (1NO39))

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OTHER INDEXING: (LSA; METROPOLITAN; TRANSPORTATION RESEARCH INSTITUTE; UNIVERSITY; UNIVERSITY OF MICHIGAN; WHITE HOUSE) (Ann Arbor; Based; Bush; Chris DeWitt; Daniel Nemirovsky; DeVos; Dick DeVos; Garrison Paige; George W. Bush; Granholm; Jennifer Granholm; John Hieftje; John Truscott; Liz Brater; McManus; Michigan; Nemirovsky; Recognizing; Truscott; U. Michigan; Ypsilanti) (ANN ARBOR, Mich.)

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March 30, 2006

Administration rolls out gas economy rules
Rick Barrett
Milwaukee Journal Sentinel

Mar. 30--The Bush administration issued new rules Wednesday ratcheting up gas mileage requirements for pickup trucks, sport utility vehicles and vans.

For the first time, the rules cover the largest SUVs on the road, such as General Motors' Suburbans, Tahoes and Yukons made at the company's assembly plant in Janesville.

Automakers will have to average 24 miles per gallon 2011 models of SUVs, pickup trucks and minivans, the Transportation Department said. The current standard is 21.6 mpg.

Outlined amid growing public concern about U.S. dependence on foreign sources of oil and rising pump prices, the new rules represent the most significant changes to the Corporate Average Fuel Economy standards in three decades.

The new rules, covering 2008 through 2011, could save 10.7 billion gallons of fuel over the lifetime of the vehicles sold during the period and go further than an administration proposal issued last summer.

"The new standards represent the most ambitious fuel economy goals for light trucks ever developed in the program's 27-year history," said Transportation Secretary Norman Y. Mineta.

The new rules do not apply to passenger cars, which must meet a 27.5 mile per gallon average fuel economy. They include SUVs weighing 8,500 to 10,000 pounds for the first time starting in 2011 but would not include large pickup trucks in the weight class because they are used primarily for work, Mineta said.

The new rules have to be implemented April to give automakers time to meet the tougher standards starting with 2008 models.

There's a lot riding on the big SUVs for nearly 4,000 Janesville workers. The plant was spared from GM's massive restructuring in November, but still faces a risk of closing if high oil and gas prices send consumers scurrying for more fuel-efficient vehicles.

The rules will force GM to continue tweaking the big sport utility vehicles to get better mileage, automotive industry analysts said.

"They can do it very easily, but it has to be in a cost-effective manner," said Bruce Belzowski, senior researcher at the University of Michigan Transportation Research Institute.

Gas mileage in big sport utility vehicles could be improved through the use of lighter materials, a better transmission and more use of diesel engines. Shaving pounds doesn't necessarily mean the vehicles have to be smaller, said Michael Robinet, an auto industry forecaster for CSM Worldwide Inc. in Farmington Hills, Mich.

"We have only started to implement some of the new technologies," Robinet said. "It's a challenge to get weight under control . . . , but there's still room to get better fuel economy."

Sales of the largest sport utility vehicles have slipped. But the timing was wrong last year for GM to pull the plug on the biggest models, given its investment in that segment.

"These vehicles have capabilities you literally can't find anywhere else," Robinet said. "There's a definite place for them in the marketplace."

Under the new rules, GM has a few years of breathing room to improve its fuel economy. During that time, there are opportunities for suppliers to develop lighter materials and new fuel-saving technologies, said Daron Gifford, an analyst with gedas USA in Detroit.

Wisconsin has dozens of automotive parts suppliers that could help in the effort, including large firms such as Johnson Controls Inc.

"There's big potential for suppliers, although GM might have to change the way it deals with them on things like intellectual property rights," Gifford said.

While the new rules close the "SUV loophole" on fuel economy, they leave open the exemption for large pickups in the 8,500 to 10,000 pound class.

"That's a large enough loophole to drive a three-quarter ton pickup through," said Walter **McManus**, director of the automotive analysis division at the University of Michigan Transportation Research Institute.

"Given past experience, one should assume that the industry will take advantage of this, as they did with the SUV loophole, and simply build bigger, heavier, and less fuel-efficient pickups for personal use," **McManus** said. "Large pickups are at least 67 percent of all vehicles that weigh between 8,500 and 10,000 pounds. leaving them out of the fuel economy standards, the president has missed a huge opportunity to reduce our oil dependency."

Environmental groups had pressed for higher standards and urged that the rules start applying to both large trucks and sport utility vehicles. They had also pressed for higher fuel savings.

After the announcement, one group estimated that the rules would save the nation only two weeks' worth of gasoline a year over the next two decades.

"The administration squandered an important opportunity to treat our oil addiction," said David Friedman, research director for the Clean Vehicles Program at the Union of Concerned Scientists.

Dan Becker, director of the Sierra Club's global-warming program, said the new rules will require minimal technological changes for U.S.-based automakers such as Ford and GM.

"The Bush administration is giving the Big Three enough rope to hang themselves," said Becker, who is based in Washington. "Americans are voting with their feet buying Hondas and Toyotas with better technology."

The change will cost an estimated \$6.7 billion over the four years, adding \$200 to the average vehicle cost, said Jackie Glassman, acting administrator for the National Highway Traffic Safety Administration.

The Associated Press and Bloomberg News contributed to this report.

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COMPANY: GENERAL MOTORS CORP; JOHNSON CONTROLS INC; BLOOMBERG LP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Land Transportation (1LA43); Automotive Fuels (1AU95); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Utilities (1UT12); Automobiles (1AU45); Public Utilities Marketing (1PU16); Automotive (1AU29); Vans (1VA41))

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Section: Business

Automakers' health depends on offering fuel-efficient vehicles
Ford, GM must retool to survive in world with more expensive gas

Rick Haglund / Grand Rapids Press Detroit Bureau

General Motors Corp. and Ford Motor Co. have a lot of things on their financial-turnaround to-do lists in 2006.

Offering consumers many more fuel-efficient vehicles should be at the top of those lists, one industry researcher says.

New estimates of higher future oil prices by the federal Energy Information Association show that \$2-a-gallon gas is here to stay, says Walter **McManus**, director of the University of Michigan Transportation Research Institute's Automotive Analysis Division.

That means consumers will be putting an ever-larger premium on fuel efficiency, he says.

"It is time for our automakers to accept this reality, something foreign competitors have understood for years," **McManus** says.

GM and Ford would argue they do realize consumers are more concerned about fuel efficiency.

Ford Chairman Bill Ford Jr. recently said his company plans to sell 250,000 gasoline-electric hybrids a year by the end of the decade.

GM has vowed to step up its investment in hybrids to catch market leader Toyota Motor Corp. And GM says it offers more vehicle models that get 30 miles to the gallon than any other automaker.

What you will be hearing more about from GM over the next several months, though, is its new lineup of full-size SUVs, which will debut at the North American International Auto Show in Detroit in January.

"In fact, GM is betting its recovery on its redesigned large SUVs and pickups, in part because that investment decision was made years ago," **McManus** says.

Yes, those new vehicles, which include the Chevrolet Tahoe, GMC Yukon and Cadillac Escalade, likely will give GM a much-needed revenue boost.

But **McManus** argues the long-term health of Ford and GM is dependent on selling smaller, more fuel-efficient cars at a profit.

"If ailing automakers are to successfully restructure their business, they must do what the Energy Information Administration has done -- acknowledge the end of cheap oil and retool their plants to build products that will sell in this new era," he says.

Trying to help

And at least a few lawmakers in a seemingly ambivalent Congress are willing to help. Sen. Barack Obama, D-Ill., and Rep. Jay Inslee, D-Wash., recently introduced legislation designed to promote more investment in fuel-saving automotive technologies.

Dubbed the "Health Care for Hybrids Act," the legislation would give automakers some relief from the crushing cost of their retirees' health-care benefits if they agree to invest half the savings in hybrids and other fuel-saving technologies.

Obama says he intends to push for passage of the legislation after the holiday break.

But its prospects are uncertain in the Republican-controlled Congress.

Automakers have not taken a position on the measure. But **McManus** says the weakened domestic automakers need assistance in bringing to market fuel-efficient vehicles that consumers will increasingly demand.

"Detroit simply does not have the financial strength needed to transform its fleet quickly enough to survive," he says.

--- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; FORD MOTOR CO; AMERICAN INTERNATIONAL GROUP INC;
TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Transportation (1TR48); Banking (1BA20); Land Transportation (1LA43); Automobiles (1AU45);
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Consumer Finance (1CO55); Manufacturing (1MA74); Passenger Transportation (1PA35))

REGION: (USA (1US73); Michigan (1MI45); Americas (1AM92); North America (1NO39))

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OTHER INDEXING: (AMERICAN INTL; AUTOMOTIVE ANALYSIS DIVISION; CHEVROLET TAHOE;
ENERGY INFORMATION ADMINISTRATION; FEDERAL ENERGY INFORMATION ASSOCIATION; FORD
MOTOR CO; GENERAL MOTORS CORP; GM; TOYOTA MOTOR CORP; UNIVERSITY OF MICHIGAN
TRANSPORTATION RESEARCH INSTITUTE) (Barack Obama; Bill Ford Jr.; Cadillac Escalade; Ford; Jay Inslee;

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October 16, 2005

Section: Ideas

Hype vs. reality
Will bubble burst once consumers do the math?

October 16, 2005

WASHINGTON -- Hybrids are the cusp of an automotive revolution. Or they are one of the most expensive public relations campaigns in the history of the auto industry.

With considerable buzz, hybrids like the Toyota Prius and the gas-electric version of the Ford Escape have captured the hearts and minds of consumers. But in Detroit, where the future of the auto industry is taken very, very seriously, there is no consensus about whether hybrids are really here to stay.

Detroit News Washington Bureau

The car companies have divided into camps of believers and nonbelievers.

The believers, such as Toyota Motor Corp. and Ford Motor Co., believe the explosion of hybrid sales will continue. They believe it's the start of a long-lasting phenomenon, one that will fundamentally change the way cars are made.

The nonbelievers - industry leaders such as GM's Bob Lutz, DaimlerChrysler's Dieter Zetsche and Nissan's Carlos Ghosn - think the business case for hybrids is far from proven, and that after the initial excitement dies down, there may not be enough car buyers out there to justify the added cost of what is essentially a second powertrain.

Yet hybrids are hot enough that no one wants to be left behind. Even the less-enthusiastic companies -- GM, DaimlerChrysler and BMW AG -- are speeding up their plans to get into the game.

What consumers might not realize is that buying a hybrid isn't a big money-saver. Various analysts estimate it can take up to 10 years for savings at the gas pump to equal the extra cash a hybrid costs.

That's a scary thought for auto execs, who have dozens of hybrid models slated for the market in the next few years: Once the math becomes more apparent to consumers, what if the hybrid phenomenon turns out to be a bubble ready to burst?

"The major myth is you are going to save money by buying a hybrid," said Jack Nerad, editorial director for Kelley Blue Book. "But most people do not look at their car purchases in terms of home economics. It's an emotional decision. There are people who will buy a hybrid even if they have to pay a premium."

The economics for consumers and automakers remains questionable because of the estimated \$4,000 to \$5,000 it costs to add a second powertrain to a vehicle. Even with gas prices skyrocketing, it can take consumers more than five years to recover the thousands of dollars they will invest in a hybrid.

In June, the car-buying Web site, Edmunds.com, estimated a driver would have to average 37,000 miles a year or gas would have to cost \$5.60 a gallon for a Ford Escape Hybrid to pay off over five years, the average amount of time a consumer owns a new car. For a Honda Civic Hybrid, the figures were 63,000 miles or \$9.60 a gallon.

Gasoline selling for \$3 a gallon changes things. Assuming you can get a 2005 model for near sticker price, a Detroit News analysis shows the break-even point would be four years for the Civic, and 4.35 years for the Escape.

More cash up front

In the current market, where hybrids are so new, different and sought-after, consumers might not even come close to recovering the hybrid premium.

A recent study by J.D. Power and Associates found the difference between an average Civic model and a hybrid version was \$4,400. For the Accord and Escape, hybrid buyers paid more than \$8,000 more. For the luxury Lexus RX400h, customers were paying \$11,272 more than a conventional RX330.

"You're not going to see widespread acceptance of hybrids until the price premium is brought down," said Anthony Pratt, senior manager of powertrain forecasting for J.D. Power.

The cost of the technology is driving GM to try different combinations of electrical systems for different vehicles.

A small-scale "parallel" hybrid -- essentially a super alternator -- has been offered on certain pickups since last year.

The Saturn VUE Green Line hybrid also will be out next year, with a system that will cost about half as much as the two-mode system.

GM will try a different approach, offering more expensive "two-mode" hybrids, which offer better city and highway fuel economy, on larger vehicles first. That means really large vehicles initially -- city transit buses in places like Seattle and Washington, D.C.

A smaller-scale version of the two-mode hybrid will appear on Chevy Tahoe and GMC Yukon models in 2007.

The idea is to try different combinations of technology, at different costs and different levels of fuel economy improvement, to see which ones are most marketable.

"We'll have a broad offering of hybrid systems," said Tim Grewe, a hybrid engineer with GM. "One solution won't work for everyone. Different customers have different needs."

What they're really buying

But for the true believers, such an approach is too late and too timid.

Toyota's Mike Michaels sees the Prius and other hybrids as a precursor to other kinds of advanced vehicles, like those that run on pollution-free fuel cells. Their energy-efficient architecture is a first step for the automobiles of the next century.

Michaels says the critics' focus on hybrid fuel economy misses the point. Hybrid buyers are purchasing many different things, including a cool new technology, a sense they are doing something for the environment and something patriotic -- reducing American dependence on foreign oil.

"We've never said the vehicle will pay for itself," Michaels said. "Satisfying a vehicle customer involves satisfying them on a number of different levels."

Michaels says Toyota is past the break-even point with its hybrids, and costs are already coming down. Batteries -- the most expensive element of the hybrid system -- have come down nearly 40 percent from the early days of the Prius.

More importantly is that the typical hybrid buyer is not choosing between a hybrid and a fuel-saving compact, said Brad Berman, editor of hybridcar.com.

Many more hybrid buyers are trading in relatively expensive, inefficient SUVs, walking into dealerships looking for something different. Hybrids have the appeal of a technology going in the right direction.

"It's like the difference between a VCR and TiVo," Berman said. "It's as much a social phenomenon as it is an economic one. Detroit is still mired in an old way of thinking."

Skeptics see fading trend

Skeptics dismiss Toyota's success as an elaborate public relations exercise that will fade when consumers take a closer look.

The skepticism is especially heavy for models like the Honda Accord, which is charging a hybrid premium but only delivering a few more miles per gallon in fuel economy. Honda tuned the system to deliver better performance instead. Some distraught environmentalists have disparagingly labeled this trend "muscle hybrids."

Some market analysts question whether, when the newness of hybrids wears off, average consumers are going to pay thousands of dollars more for a few more miles per gallon.

"There's one super-duper hybrid, and then there's the rest," said Daniel Gorrell, vice president of automotive consulting for Strategic Vision, Inc., a California research firm.

"The Prius is very satisfying and delightful to people. With the others, there's a feeling they're going to get this tremendous fuel economy, but the reality is they would be better off with a lot of gasoline-only models."

Or as Detroit's iconoclastic Web site, autoextremist.com, recently put it: "Hybrids are a transitional technology on the way to a larger solution, not the 'magic bullet' that the initial hype has led consumers to believe."

Big 3 short on capital

The University of Michigan's Walter **McManus** thinks Detroit's reluctance to embrace hybrid technology lies more in a lack of cash for capital spending than the economics for consumers.

"The bigger issue for Detroit is the up-front costs," said **McManus**, director of the Office for the Study of Automotive Transportation. "It's worth it to Toyota, they have lots of cash. But American manufacturers don't have the room to do it right now."

Dozens of other technologies that are less glamorous make more economic sense.

When it looked at the possible benefits of raising Corporate Average Fuel Economy standards in 2001, the National Academy of Sciences identified more than two-dozen already existing gas-conserving technologies that would pay for themselves in terms of fuel-economy savings.

What has been most surprising for Detroit's automakers is that there can be some emotional attachment to fuel economy, according to John DeCicco, senior policy analyst with Environmental Defense. Buying a hybrid isn't that different from spending a lot of money on a Corvette, a Lexus luxury sedan or a Hummer -- in the sense that consumers who have the money will spend it to make a statement.

"Irrationality is what makes the car market go round," DeCicco said. "People evaluate cars the same way they do everything else -- a combination of research, instinct and emotion. If people did a cost analysis to that level of economic rigor, they'd never buy a new car, period."

Old technology is an obstacle

McManus, the University of Michigan economist, also sees hybrids as a "disruptive technology," one that could drain the value from a lot of the investments that have been made in factories that produce traditional cars and trucks.

"Detroit is geared to produce big, heavy vehicles with power going to the wheels through big drive shafts," **McManus** said. "People who are wedded to the old technology are fighting this. They're hoping it will go away."

Some of Detroit's critics think the Big Three continue to have a blind spot when it comes to fuel economy, since it is the antithesis of the kinds of things they have traditionally used to sell cars, like size, horsepower and sex appeal. Their business model seemed to be built on cheap gas forever, and when gas was cheap, it was easy to dismiss the issue.

"The Big Three believed their own rhetoric that nobody cares about fuel economy," said Daniel Becker, director of the Sierra Club's global warming program. "Now people are lined up around the block to buy hybrids. Americans finally have a choice between gas guzzlers and efficient vehicles. We'll see which one they choose."

Honda Civic EX

Sticker price : \$19,110

EPA mileage est. : 33 mpg

Annual gas cost*: \$1,364

Tax deduction**: N/A

Years to pay off***: N/A

Honda Civic hybrid

Sticker price: \$21,450

Added cost of hybrid: \$2,340

EPA mileage est. : 47 mpg

Annual gas cost*: \$957

Tax deduction**: \$700

Years to pay off***: 4

Ford Escape XLT

Sticker price: \$24,900

EPA mileage est. : 20 mpg

Annual gas cost*: \$2,250

Tax deduction**: N/A

Years to pay off***: N/A

Ford Escape hybrid

Sticker price: \$29,070

Added cost of hybrid: \$4,170

EPA mileage est. : 31 mpg

Annual gas cost*: \$1,452

Tax deduction**: \$700

Years to pay off***: 4.35

*Assuming gas is \$3 per gallon and 15,000 miles driven each year **One-time clean fuels tax deduction of \$2,000.
Actual tax savings depends on driver's income and other deductions

***Amount of time it would take for gas savings to equal added initial investment in hybrid technology. N/A: Not

applicable

Sources: U.S. Department of Energy, U.S. Environmental Protection Agency, Kelley Blue Book

The Detroit News

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COMPANY: ASTON MARTIN LAGONDA LTD; FORD MOTOR COMPANY OF CANADA LTD; TOYOTA MOTOR CORP/; ESCAPE; SIERRA CLUB; HONDA; TOYOTA; US DEPARTMENT OF ENERGY; SOURCES; NATIONAL ACADEMY OF SCIENCES; FORD MOTOR CO (BELGIUM) SA; LEXUS; FORD MOTOR CO; TOYOTA MOTOR CORP; US ENVIRONMENTAL PROTECTION AGENCY; STRATEGIC VISION INC; FORD MOTOR CO AS; TOYOTA MOTOR NORTH AMERICA INC; KELLEY BLUE BOOK CO INC; BAYERISCHE MOTOREN WERKE AG; UNIVERSITY OF MICHIGAN

NEWS SUBJECT: (Taxation (1TA10); Major Corporations (1MA93); Economics & Trade (1EC26))

INDUSTRY: (Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Accounting, Consulting & Legal Services (1AC73); Automobiles (1AU45); Oil & Gas (1OI76); Oil & Gas Prices (1OI34); Transportation (1TR48); Automotive Environmental Initiatives (1AU68); Passenger Transportation (1PA35); Electric Vehicles (1EL48); Transportation New Technology (1TR05); Environmental (1EN24); Oil & Gas Market (1OI62); Automotive Models (1AU61); Land Transportation (1LA43); Four Wheel Drive (1FO31); Environmental Solutions (1EN90); Automotive Technology (1AU48); Downstream Oil (1DO72); Automotive Fuels (1AU95); Busing (1BU35))

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October 16, 2005

Section: News

Luxury automobile buyers are taking a different route

Shane Graber ST. LOUIS POST-DISPATCH

Ben Uchitelle used to drive a Lexus 400, but he ditched it for a car half its price.

He and his wife aren't having money problems. They still have the place in Claverach Park, where homes average more than half a million dollars. Uchitelle is still a lawyer and the mayor of Clayton, an area where image matters.

The Uchitelles are part of a growing group of automobile buyers who are opting instead for the hybrids. More and more of these fuel efficiency vehicles, which usually cost less than \$25,000, are popping up in country club parking lots and in valet lines at high-end restaurants.

The growth, observers say, is fueled partly by conscience, partly by fashion. Since the introduction of the vehicles in 2000, the market has grown by more than 960 percent.

The Office for the Study of Automotive Transportation says the hybrid buyer now makes about \$100,000 a year, compared with \$85,000 for the non-hybrid car buyer.

"They're not buying it for fuel economy," said the research group's director, Walter **McManus**. "They're very concerned about the environment, but there is an image thing that goes with it."

Some consumer industry experts say it's a relatively new social phenomenon -- and a good one. More and more consumers, experts say, are deciding that just because they can afford all the gas they want, they don't necessarily have to burn through it all.

Of course, it doesn't hurt that going green -- the industry phrase for buying something that's environmentally friendly -- is en vogue, said Steve Stiegman, general manager for Newbold Toyota BMW Scion in O'Fallon.

"You're seeing that phenomenon in Hollywood now where many of the stars are showing up at red carpet events in the (Toyota) Prius, whether it's Leonardo DiCaprio or Cameron Diaz," he said. "That's part of the glory of having that car."

Celebrity owners also include Tom Hanks, Meryl Streep, Sting, Larry David, Tim Robbins and Will Ferrell.

Madge Treeger has noticed that Hollywood connection. A 70-year-old psychotherapist, she and her husband, a financial planner, live in a condominium in Clayton. The couple's parking lot is filled with Cadillacs and Mercedes-Benzes.

"With a few Lexuses and Jaguars thrown in," she said.

The Treegers could afford luxury cars, but such cars don't interest them, Madge Treeger said.

"It definitely was a social decision to buy the Prius, and a gas-saving decision," she said. "And I'm sure we're making a statement.

"I drive around and think, 'Oh, I'm a good person.'"

Several of Stiegman's customers who have bought Priuses previously purchased more expensive BMWs. In fact, prestigious sports car owners are almost twice as likely as other vehicle owners to switch to a hybrid vehicle, a survey from the Polk Center for Automotive Studies showed.

"The consumer doesn't like to be outdone by their neighbor," Stiegman said. "If a guy down the street is saving substantial money in fuel costs, they feel like they need to try and do that, too."

"Some definite benefits" Dr. Issac Boniuk, a retina specialist living in the Ladue and Frontenac area who owned a Mercedes, said his motives for buying a hybrid had nothing to do with its fashionability.

"The most important thing is getting to and from work," he said. "I've never been interested in anything fancy or that it's a luxury-status type of thing. That has no appeal to me whatsoever. I'm interested in getting to where I'm going in something that's reliable."

He bought his Prius for about \$21,000, he said. He even got a tax credit of about \$2,500 for buying a hybrid.

"So there were some definite benefits in using it," Boniuk, 67, said.

Small contributions, he said, add up.

"It's not that I'm an environmentalist and I don't think that we should use oil," he said. "I think we should. But I think anything we can do to cut down on our use of energy or reliance on foreign sources for energy, we should do."

The Uchitelles now have two Priuses. They bought their first nearly four years ago.

"I liked the fact that it was both environmentally clean and it got excellent gas mileage," Uchitelle said. "But it has been evident to me that we have to conserve on the use of gasoline. Quietly, I want to do what I can do to help in that regard."

Now, several of his neighborhood friends own Priuses.

On Thursday, Toyota announced a voluntary recall of about 160,000 Prius cars sold mainly in the United States and

Japan because of a potential software glitch that may cause the car to stall. No reported accidents or injuries have been linked to the problem.

Hybrids still make up less than 1 percent of the entire vehicle market. The Prius occupies about 64 percent of the hybrid market, a study by April L. Polk & Company showed. The Honda Civic holds 31 percent of the market share.

But hybrids are expected to make up 5 percent of all new car purchases by 2012, **McManus** said. At least 15 new hybrid models will be released in the next three years. So more hybrids probably will join Treeger's Prius.

But the social -- and environmental -- statement will stay the same, she said.

"There's no doubt about the fact that driving a Prius is sort of like putting a bumper sticker on your car," she said. "There's a part of you advertising your social consciousness."

\$100,000

Average yearly income for buyers of hybrid automobiles

\$85,000

Average yearly income for buyers of nonhybrid automobiles

forums.stltoday.com Have you thought about getting a hybrid? Talk about it in our online transportation forum, Along for the Ride.

---- INDEX REFERENCES ---

COMPANY: TOYOTA FINANCIAL SER; TOYOTA; HYBRID

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Oil & Gas (1OI76); Automotive (1AU29); Automotive Retail (1AU31); Land Transportation (1LA43); Transportation (1TR48); Automotive Retail & Distribution (1AU77); Passenger Transportation (1PA35); Downstream Oil (1DO72); Automobiles (1AU45))

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OTHER INDEXING: (AUTOMOTIVE STUDIES; AUTOMOTIVE TRANSPORTATION; CAMERON DIAZ; HONDA CIVIC; HYBRID; LADUE; NEWBOLD TOYOTA; POLK CENTER; TOYOTA) (April L. Polk; Ben Uchitelle; Boniuk; Celebrity; Frontenac; Issac Boniuk; Jaguars; Larry David; Madge; Madge Treeger; McManus; Meryl Streep; Quietly; Steve Stiegman; Stiegman; Talk; Tim Robbins; Tom Hanks; Treeger; Treegers; Uchitelle; Uchitelles; Walter McManus)

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Section: Business

Hybrids: less mpg than advertised

Dudley Price

Amy Branch paid \$50,000 for a Lexus hybrid SUV in part because she wanted to save money on gas.

But after a month of driving, she was still getting less than 25 miles to the gallon, not the 31 estimated by the EPA.

"I took it back to the Lexus dealer to ask if I was doing something wrong," said Branch, a sales executive at SunGard Data Systems. "I love the car, it's beautiful to drive ... but I wish I was getting better gas mileage."

Six years after being introduced, hybrid vehicles -- which use electric motors as well as internal combustion engines -- are no longer a rarity on the highway. And now with gas prices hovering around \$3 a gallon, more and more people -- including President Bush -- are pointing to hybrids as a way to reduce fuel use and dependence on foreign oil.

But while hybrids spew out less emissions and get better mileage than many vehicles that use only gas, they also cost more. Now owners are learning the high EPA mileage estimates are tough -- if not impossible -- to duplicate. Most owners won't recoup the extra cost despite savings on gas expenses, experts said.

"If the promise is they will save money, they probably don't," Walter **McManus**, director of the Office for Study of Automotive Transportation at the University of Michigan. "They haven't proven they're the answer yet."

For drivers who keep their cars four years or less, **McManus** said gas prices will have to reach \$6 a gallon before drivers will recoup the extra cost. "It's unrealistic until the cost comes way down or the price of fuel goes up quite a bit for them to pay for themselves," he said.

Sticker prices generally run about \$3,000 to \$5,000 more than comparable traditionally powered vehicles. At Leith Honda, a 2005 Civic hybrid lists for \$21,110, or \$3,000 more than a regular Civic, said Brad Manning, Internet sales manager. At Fred Anderson Toyota, a hybrid Highlander SUV lists for about \$33,000, or \$7,000 more than a non-hybrid, said Tom Burton, general manager. And Branch said she could have saved \$9,000 by buying a nonhybrid Lexus.

But showroom prices are expected to tumble as production increases and sales rise more.

Sales of hybrids have risen from a puny 17 vehicles in 1999 -- the year Honda introduced its two-seater Insight -- to a projected 221,966 this year, according to J.D. Power and Associates.

By 2010 that number is expected to triple. Last month Ford promised to increase its hybrid production tenfold to 250,000 cars and trucks over the next five years. Toyota, meanwhile, has said it wants hybrids to make up 25 percent of its U.S. sales by the end of the decade.

Sales have been boosted by federal tax deductions (next year the deduction becomes a tax credit), the desire to be more environmentally friendly and the promise of better gas mileage.

But some buyers are still searching for the big gas savings indicated on the EPA stickers.

Raleigh real estate developer Rick Marshall paid \$31,500 this spring for new Honda hybrid Accord because he didn't want to waste resources or add to pollution. But he was also drawn to the EPA estimates of 29 mpg in city driving and 37 on the highway.

"The highest mileage I recorded was 28.66, including a lot of highway driving, and most times in the city, I've gotten 22 or 23" mpg, Marshall said. "I'm dissatisfied with the mileage and I'm especially dissatisfied they misrepresented the mileage."

Part of the problem is outdated testing procedures by the Environmental Protection Agency, according consumer groups and transportation analysts.

EPA "tests don't account for several key elements, like rapid acceleration and air conditioning," said Jim Kliesch, research associate for the American Council for an Energy Efficient Economy, an advocacy group in Washington.

A study of 2000 to 2006 model cars and trucks in the October issue of Consumer Reports found that gas-powered vehicles delivered 9 percent fewer miles per gallon than EPA stickers claimed. Diesels and hybrids got 18 percent less, according to the magazine.

The EPA is aware of problems with the ratings and will propose changes this year, said John Millett, an agency representative in Washington. The agency put out its fuel economy ratings for 2006 vehicles -- using its old testing procedures -- and again the top 10 was dominated by hybrids.

Not all hybrid owners mind not meeting sticker estimates, because the cars still get better mileage than the ones they replaced.

Victoria Cumbee, who works for the state Wildlife Resources Commission in Raleigh, loves her 2004 Toyota Prius, even though it sometimes gets 6 mpg less than the EPA estimate of 55 mpg of combined highway and city driving. "I'm just trying to do the right thing for the environment," said Cumbee, who commutes to work from Zebulon. "It's got relatively low emissions and great gas mileage." Her old Toyota Camry got 27 mpg to 30 mpg in combined city and highway driving.

Wake County's motor fleet includes 20 Honda Civic hybrids, which get about 35 mpg in the city and 45 mpg on the highway. That's less than the 47 city mpg and 48 highway mpg estimated by the EPA, but fleet director Tom Kuryla is still pleased. "They're replacing a Crown Victoria, getting maybe 15 mpg, or a Ford Taurus, getting 18 to 20 mpg in town," Kuryla said. "I'm ecstatic."

Uma Shankar, a scientist who commutes from Raleigh to Chapel Hill, gets combined mileage of 43 miles per gallon with a 2002 model Toyota Prius. The EPA says it should be 48 mpg but she's not bothered. "I'm laughing all the way to the gas station," she said.

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HYBRID FEATURES

Hybrid vehicles cut fuel use and emissions more in urban environments, where the engine cycles on and off in traffic, and idling time is reduced. Hybrids commonly include:

Idle stop: Turns off the engine when the vehicle is stopped.

Regenerative braking: Charges the battery when the vehicle is slowing down.

They may also include:

Motor assist: The electric motor draws extra power from the battery to boost the internal combustion engine, such as when accelerating or going uphill. Allows a smaller engine without sacrificing performance.

Engine-off drive-EV mode: The electric motor propels vehicle at low speeds.

Two broad levels of hybridization are "mild" (which costs less but saves less fuel) and "strong," depending on whether the vehicle includes motor assist and "engine-off drive-EV mode."

- GM's Chevrolet Silverado and GMC Sierra hybrids have neither.

- Honda's Civic hybrid and Insight have motor assist, but not engine-off drive-EV mode.

- Ford's Escape hybrid and Toyota's Prius have both.

(HYBRIDEXPERIENCE.CA)

a diagram of how the car is powered -- the arrows show whether power is coming from the electric motor or gas engine.

--- INDEX REFERENCES ---

COMPANY: EURO PHYSICAL ACOUSTICS SA; LEXUS; FORD MOTOR CO; FORD ESPANA SL; SUNGARD DATA SYSTEMS INC; ROY OBRIEN INC; SUNGARD DATA SYSTEMS; TOYOTA FINANCIAL SER; TOYOTA; FORD MOTOR COMPANY SA DE CV; UNIVERSITY OF MICHIGAN

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Automotive (1AU29); Low Emission & No Emission Vehicles (ILO79); Oil & Gas Regulatory

(1OI37); Automobiles (1AU45); Oil & Gas (1OI76); Automotive Retail (1AU31); Oil & Gas Prices (1OI34); Transportation (1TR48); Automotive Environmental Initiatives (1AU68); Oil Regulatory (1OI92); Passenger Transportation (1PA35); Electric Vehicles (1EL48); Automotive Regulatory (1AU33); Transportation Regulatory (1TR42); Transportation New Technology (1TR05); Environmental (1EN24); Automotive Retail & Distribution (1AU77); Oil & Gas Market (1OI62); Automotive Models (1AU61); Land Transportation (1LA43); Environmental Solutions (1EN90); Automotive Technology (1AU48); Downstream Oil (1DO72))

REGION: (Americas (1AM92); USA (1US73); North America (1NO39))

Language: EN

OTHER INDEXING: (AMERICAN COUNCIL; AUTOMOTIVE TRANSPORTATION; ENERGY EFFICIENT ECONOMY; ENVIRONMENTAL PROTECTION AGENCY; EPA; FORD; FORD TAURUS; FRED ANDERSON TOYOTA; GM; GMC; LEXUS; PRIUS; SUNGARD DATA SYSTEMS; SUV; TOYOTA; TOYOTA PRIUS; UNIVERSITY OF MICHIGAN; WILDLIFE RESOURCES COMMISSION) (Amy Branch; Brad Manning; Branch; Chapel Hill; Cumbee; Diesels; Honda; J.D. Power; Jim Kliesch; John Millett; Kuryla; Leith Honda; Marshall; McManus; Regenerative; Rick Marshall; Tom Burton; Tom Kuryla; Uma Shankar; Wake; Walter McManus)

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Volume 36; Issue 4

Hybrids Are Becoming Mainstream

Anonymous

Hybrid gasoline-electric vehicles are rapidly becoming mainstream choices for American consumers, say researchers at UMTRI and HybridCars.com.

"The first buyers were motivated by the novelty of the technology, but today's shoppers are more interested in tangible benefits, such as saving fuel, reducing emissions or reducing dependence on oil," says Walter **McManus**, head of UMTRI's Automotive Analysis Division (formerly OSAT; see related story on page 6).

McManus and colleague Brad Berman, editor of website HybridCars.com, surveyed more than 1,500 visitors to HybridCars.com from December 2004 to March 2005 to learn about consumer attitudes and views of hybrid vehicles. More than a third of the respondents said they own a hybrid and most of the rest said they were in the market for one. In an interview on the television program Autoline Detroit, **McManus** said that there is a potential in the United States to sell a million hybrids and 1.5 million advanced diesel-engine vehicles by the year 2012.

The survey found that while owners of hybrids were less likely than other recent buyers of new vehicles to have owned a sport-utility vehicle or pickup truck in the past five years, nearly 40 percent of the survey's "hybrid shoppers" have owned an SUV and about 25 percent have owned a truck.

"The first wave of hybrid owners, who were satisfied with smaller vehicle options, are being joined by consumers wanting to keep their SUVs or large sedans-and not get stung by rising gas prices," Berman says. "Hybrids have quickly shifted from a feel-good ideological purchase to a bottom-line, cost-conscious decision. Hybrids cars are clearly going mainstream."

According to the survey, saving money on gas and cutting down on air pollution were the top two reasons for owning a hybrid (this was true for both owners and shoppers of hybrids). Reducing dependency on foreign oil and emitting less climate-changing carbon dioxide were other main reasons for owning a hybrid (for both groups). However, owners of hybrids were far more likely than shoppers to say they liked the design and technology of hybrid vehicles.

IMAGE PHOTOGRAPH

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The new and anticipated hybrid SUVs-Ford Escape, Lexus RX 400h, Toyota Highlander-also are attracting more mainstream customers, the researchers say. "These new hybrids are rapidly rising on the hybrid shopping list, although the smaller Toyota Prius remains at the top," **McManus** says. "Trust in the brand, technology, fuel economy, design, styling and performance are what motivated current owners to buy the specific model they did. And the Prius scores well on all these dimensions."

Toyota's New Prius was the highest-rated hybrid. Other leading models include the Honda Accord, Honda Civic, Honda Insight, Ford Escape and Toyota Prius Classic. Today's shoppers look for hybrid models with high fuel economy, value for the price, a trusted brand name and good performance, **McManus** and Berman say.

The survey also included a detailed assessment of quality as perceived by owners, including likes and dislikes, whether the owner would recommend the model to a friend or plans to buy another hybrid in the future, and five-point ratings in six categories: mechanical, body and interior, features and accessories, performance, creature comforts, and style.

Fear of higher maintenance costs was the most frequently cited dislike, a fact that has taken on greater urgency for manufacturers since the National Highway Transportation Safety Administration is investigating complaints by some Prius drivers that the car stalls at highway speeds, the researchers say.

You can watch **McManus'** interview on Autoline Detroit at www.theautolink.com/autoline/watch.php?stream=932 or read his blog on hybrids at www.hybridcars.com/blogs/brain. For a related story, see "NCEP Supports Tax Credit Based on OSAT Study" in volume 35, number 4 of UMTRI Research Review, www.umtri.umich.edu/library/pdf/rr35_4.pdf.

---- INDEX REFERENCES ---

COMPANY: TOYOTA MOTOR CORP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Transportation (1TR48); Gasoline (1GA40); Land Transportation (1LA43); Automobiles (1AU45); Automotive (1AU29); Automotive Fuels (1AU95); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35))

REGION: (USA (1US73); Michigan (1MI45); Americas (1AM92); North America (1NO39))

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OTHER INDEXING: (AUTOMOTIVE ANALYSIS DIVISION; HYBRIDCARS COM; LEXUS; NATIONAL HIGHWAY TRANSPORTATION SAFETY ADMINISTRATION; RX; SUV; UMTRI) (Berman; Brad Berman; Fear; Ford Escape; Honda Civic; Honda Insight; Hybrids; McManus; Prius; SUVs-Ford Escape; Toyota; Toyota Prius; Walter McManus) (United States--US)

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Walter **McManus** Heads UMTRI's Automotive Analysis Division (Formerly OSAT)

Anonymous

Walter **McManus**, an expert on alternative drive powertrains and automotive forecasting, joined UMTRI in spring, 2005, as the division head of UMTRI's Automotive Analysis Division (formerly OSAT; see sidebar article). **McManus** is the former executive director of global forecasting for J.D. Power and Associates and also worked at General Motors for nearly a decade. While at J.D. Power and General Motors, he conducted research on new automotive technologies and their impact on society and the environment, the market potential of hybrids and diesel-powered vehicles, and automotive product and brand portfolio strategies.

"The Automotive Analysis Division gives UMTRI an important window on the automotive world, and Walter's GM and J.D. Power experience and fine reputation with automakers and suppliers will help UMTRI," says UMTRI director Peter Sweatman. "We need to focus our research on tomorrow's auto industry issues, such as hybrid drivetrains, alternative energy, and vehicle-vehicle and vehicle-highway communication. Walter will continue the UMTRI tradition of providing topical and insightful studies on the state of the auto industry."

McManus, who has doctoral and master's degrees in economics from the University of California, Los Angeles, and a bachelor's degree from Louisiana State University, initiated J.D. Power's research program on the market potential of alternative powertrains. His research showed that the auto industry has underestimated consumer demand for diesel-powered vehicles.

IMAGE PHOTOGRAPH

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In addition, **McManus** created a model to evaluate policy choices to encourage the adoption of hybrids and clean-diesel vehicles for an industry group of automobile manufacturers, suppliers, the United Auto Workers, and other organizations. Another model he developed is used by manufacturers to study options for hybrid and clean-diesel product portfolios and by the Department of Energy to assess the impact of different policies on overall fuel economy.

Other research he led at J.D. Power included forecasting auto sales in most markets worldwide, Generation Y's future influence on the auto market, the growing importance of Hispanics in the demand for autos, and creating models to

forecast sales of telematics and advanced safety features.

His work at General Motors throughout the 1990s focused on developing new product and brand portfolio strategies that are credited for sustaining the company's profitability since that time and for helping to launch some of GM's most successful new models in the last five years.

"Walter is a first-rate econometrician and microeconomist who has published in leading academic journals," says Mustafa Mohatarem, GM's chief economist. "His innovative work on General Motors' economics staff left a powerful and lasting imprint on the way we analyze the industry and market our passenger cars and trucks. His work at J.D. Power has also contributed significantly to our understanding of the business and public policy climate."

As division head, **McManus** replaces Michael Flynn, who recently retired. Flynn, who had worked at UMTRI since 1988, headed OSAT from 2000 to 2005.

OSAT Changes Its Name to Automotive Analysis Division

UMTRI's Office for the Study of Automotive Transportation (OSAT) has changed its name to the Automotive Analysis Division (AAD). The change reflects the important role the division is playing in UMTRI's strategic development and clarifies UMTRI's growing role in researching the impact of the automotive industry on the safety and sustainability of transportation. UMTRI director Peter Sweafman says, "Walter **McManus**, head of the Automotive Analysis Division, is making great strides in strengthening UMTRI's position as the University of Michigan's window on the automotive world."

---- INDEX REFERENCES ----

COMPANY: UNITED AUTO GROUP INC; GENERAL MOTORS CORP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Land Transportation (1LA43); Environmental (1EN24); Environmental Solutions (1EN90); Electric Vehicles (1EL48); Automotive Models (1AU61); Manufacturing (1MA74); Passenger Transportation (1PA35); Automotive Technology (1AU48); Transportation (1TR48); Automobiles (1AU45); Automotive Environmental Initiatives (1AU68); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73))

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OTHER INDEXING: (McManus, Walter) (AAD; AUTOMOTIVE ANALYSIS DIVISION; AUTOMOTIVE TRANSPORTATION (OSAT; DEPARTMENT OF ENERGY; GENERAL MOTORS; GM; LOUISIANA STATE UNIVERSITY; MCMANUS; MOTORS; OSAT; UMTRI; UNITED AUTO; UNIVERSITY OF CALIFORNIA; UNIVERSITY OF MICHIGAN; WALTER; WALTER MCMANUS; WALTER MCMANUS HEADS) (Flynn; J.D. Power; Michael Flynn; Mustafa Mohatarem; Peter Sweafman; Peter Sweatman) (United States--US)

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Section: Asection

Nation needs more costly gas to force change
Increase in gasoline tax would foster a market for fuel efficiency

ROBERT SAMUELSON, Washington Post Writers Group

What this country needs is \$4-a-gallon gasoline or, maybe, \$5. We don't need it today, but we do need it over the next seven to 10 years via a steadily rising oil tax. Coupled with stricter fuel-economy standards, higher pump prices would push reluctant auto companies and American drivers away from today's gas guzzlers. That should be our policy. The deafening silence you hear on this crucial subject from the White House, Congress and the news media is a sorry indicator of national shortsightedness.

Katrina's message is clear: We are vulnerable to any major cutoff of oil. This cutoff came from a natural disaster, but the larger menace is a political cutoff. Two-thirds of the world's proven oil reserves lie around the Persian Gulf; these countries, led by Saudi Arabia, now provide about a quarter of today's oil supply. This flow could be interrupted at any time for many reasons -- terrorism, war, domestic upheaval, deliberate cuts.

Until oil's geography changes, a prudent society would respond to this unavoidable insecurity. After the first oil "crisis" in 1973, Americans did. Congress created a Strategic Petroleum Reserve and mandated fuel-economy standards. Drivers were sobered by high prices. From 1970 to 1990, average fuel economy for cars rose from 13.5 mpg to 20 mpg. But in the 1990s, there was massive backsliding. Fuel economy stagnated, as millions shifted to SUVs and pickups.

Complacency reigned. Americans re-embraced the notion of cheap gasoline as a "right" that, if impaired, must be blamed on greedy oil companies, monopolistic OPEC or some sinister conspiracy. Thus, "gouging" was the acceptable explanation for the sharp run-up of gasoline prices.

Hybrids can help

More than 60 percent of our oil use goes for transportation, dominated by road travel. It's a myth that encouraging more fuel-efficient vehicles means we will all have to drive shoeboxes. The advent of "hybrid" vehicles -- combining internal-combustion engines and electric motors -- promises fuel-efficiency gains of 10 percent to 50 percent based on existing technologies, says David Greene of the Oak Ridge National Laboratory. But it's also a myth that simply issuing tougher fuel standards will bring instant relief. "It's going to take a long time," says Walter **McManus** of the

University of Michigan Transportation Research Institute. "You've got 225 million vehicles out there. It's about 15 years to turn over the fleet." Actually, the math is worse than that. From 2003 to 2025, the number of vehicles may grow by 50 percent, projects the Energy Information Administration. The increase reflects more people and higher incomes. The upshot: to keep total gasoline consumption constant, average fuel efficiency must improve roughly 50 percent.

We should be able to do this. Car companies can shift decisively toward hybrids. Despite the hype, annual hybrid sales this year will amount to a mere 234,000 out of sales of about 17 million, **McManus** says; and present production plans would raise that to only about 600,000 by 2009, he projects. If companies are to be shoved toward hybrids, they have to be assured of strong demand, because on average, hybrids cost \$3,000 to \$4,000 more than conventional cars. (The reasons: the cost of batteries and the need for two power systems.) The traditional U.S. car companies -- General Motors, Ford and Chrysler -- are unfortunately the least prepared for change. They tied their fortunes to the biggest SUVs and pickups.

Make cheap gas history

Hence, the need for a stiff oil tax. Government needs to foster a market for fuel efficiency. The tax should be introduced gradually -- paralleling tougher fuel standards -- and, perhaps, tempered if global oil prices rise sharply. One way or another, Americans should know that the era of cheap gasoline is history. Some drivers will want hybrid versions of their present vehicles; others will downsize. It's not a national tragedy for someone to trade an Expedition for a Taurus.

At times, individual freedom must be compromised to improve collective security. Even so, we cannot insulate ourselves from all upsets in the world oil market, including a catastrophic loss of supply. Barring huge oil discoveries or technological breakthroughs, "energy independence" is another myth. But we could limit our exposure. The fact that we're not trying is -- considering how warnings of New Orleans' vulnerability were ignored -- an irony worth noting.

Robert

Samuelson

---- INDEX REFERENCES ---

COMPANY: WHITEHOUSE; GENERAL MOTORS SUISSE SA; GENERAL MOTORS FINLAND OY; GENERAL MOTORS AUSTRALIA LTD; GENERAL MOTORS HOLDENS SALES PTY LTD; GENERAL MOTORS ITALIA SRL; GENERAL MOTORS NEDERLAND BV; ENERGY INFORMATION ADMINISTRATION; GENERAL MOTORS POWERTRAIN KAISERSLAUTERN GERMANY GMBH; GENERAL MOTORS INVESTMENTS PTY LTD; OAK RIDGE NATIONAL LABORATORY; GENERAL MOTORS; MOTORS LIQUIDATION CO

INDUSTRY: (Environmental (1EN24); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Oil & Gas Regulatory (1OI37); Automobiles (1AU45); Oil & Gas (1OI76); Gasoline (1GA40); Land Transportation (1LA43); Transportation (1TR48); Passenger Transportation (1PA35); Oil Regulatory (1OI92); Automotive Environmental Initiatives (1AU68); Environmental Solutions (1EN90); Automotive Technology (1AU48); Electric Vehicles (1EL48); Automotive Regulatory (1AU33); Downstream Oil (1DO72); Transportation Regulatory (1TR42); Automotive Fuels (1AU95))

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OTHER INDEXING: (David Greene) (CHRYSLER; CONGRESS; ENERGY INFORMATION ADMINISTRATION; GENERAL MOTORS; OAK RIDGE NATIONAL LABORATORY; STRATEGIC PETROLEUM RESERVE; SUVS; UNIVERSITY OF MICHIGAN TRANSPORTATION RESEARCH INSTITUTE; WHITE HOUSE) (Complacency; Coupled; David Greene; Government; Katrina; McManus; Walter McManus) (Saudi Arabia; New Orleans; us.nc.charlt; us.nc; us; sa; sau; mde; us.la.nworln; us.la)

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July 28, 2005

Higher oil prices could jeopardize Janesville, Wis., GM plant
Jim Leute
The Janesville Gazette, Wis.

Jul. 28--General Motors' assembly plant in Janesville is one of several North American auto plants that could be at risk for closure or significant layoffs if oil prices continue to rise.

That's one of the conclusions of a study released jointly Wednesday by the University of Michigan Transportation Research Institute's Office for the Study of Automotive Transportation and the Natural Resources Defense Council.

But an industry analyst called the study's assumptions "extreme" and said the relationship between sport utility sales and higher gas prices has been discussed for more than a year.

The study asks what would happen to the U.S. vehicle market if oil prices reached \$80 or \$100 a barrel, which would be the equivalent of \$2.86 or \$3.37 a gallon of gas.

The authors' conclusion is that vehicle sales would fall by 3 million units and pretax profits would drop by as much as \$17.6 million.

That's due in large part to the manufacturers' dependence on "gas-guzzling" vehicles that the authors say would account for two-thirds of the lost sales.

"Oil is a huge issue for this country, and it's a major challenge for the auto industry," said Roland Hwang, vehicles policy director for the council, a national nonprofit group dedicated to protecting public health and the environment.

Walter **McManus**, director of the University of Michigan agency, said that oil prices of \$80 a barrel would result in the loss of 297,000 auto-related jobs, while at \$100 per barrel, the job losses could reach 465,000. Oil prices are now hovering near \$60 per barrel.

"When we started this study, I didn't expect to see that big of an effect of fuel prices and sales of sport utility vehicles," said **McManus**, who also has served as a forecaster and analyst for industry consultant J.D. Power & Associates as well as GM.

"But what we found is that there is a very significant effect."

Jesse Toprak, senior analyst at Edmonds.com, said the report offers no big surprises. Factors affecting SUV sales-high gas prices and the need for incentives-have been discussed for more than a year.

It's hard to say what plants, if any, would close, he said.

"I think some of the scenarios are a little extreme and not as bad as they sound," he said.

GM's plant in Janesville produces full-size SUVs including the Chevrolet Suburban and Tahoe and GMC Yukon XL and Yukon. So, too, does GM's plant in Arlington, Texas, which also made the study's list of 14 U.S. factories that could be at risk.

Hwang cautioned several times during a conference call with reporters that the study's authors are not making predictions or forecasting oil prices. But the authors wanted to know what effect "plausible scenarios" for higher oil prices could have on the automakers' bottom lines and work forces.

"We are talking about permanent loss of jobs and market share on top of the painful changes already happening at the Big Three," Hwang said. "Given the state of U.S. automaker finances, they simply cannot afford to make the mistake of ignoring fuel economy performance again."

Sherrie Childers Arb, director of environment and energy communications for GM, said it's wrong to assume higher oil prices.

"Our indicators show that oil will go down, not up," she said, pointing to information she gets from the federal Energy Information Agency, which is part of the Department of Energy.

By 2010, the agency expects a barrel of oil to fall to \$26, she said.

To offset sales declines for SUVs that have been major profit centers, the Big Three have been forced to offer massive rebates and incentives, the study said.

GM announced Wednesday that it soon will end the employee pricing program it has extended to the general public.

"We'll see if the other automakers follow suit," **McManus** said, adding that all automakers must make fuel economy a top priority.

"Our analysis clearly shows the significant vulnerability of the Big Three U.S. auto companies in the event of higher oil prices," he said. "In this new competitive environment, fuel economy performance is now a key indicator of corporate competency."

"The good news is that automakers can manage this risk using good technology and smart design to raise mileage across the board."

Hwang said he hopes the study will help automakers recognize that they have a fuel efficiency problem. Many technologies exist that allow automakers to make SUVs and cars more fuel efficient, he said, but the Big Three have been slow to adopt them.

George Hoffer, an economist at Virginia Commonwealth University and a frequent consultant to the auto industry, said SUVs are still the bread and butter of domestic automakers, even with rising concern for fuel efficiency.

"The truck-based sport-utility market is not going to go away," he said.

Toprak, the Edmonds.com analyst, said it's not reasonable for automakers to treat fuel efficiency as job No. 1.

"These companies are not out there to protect our environment," he said. "They're out there to make money."

Information from Knight Ridder Tribune was used in this story.

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NEWS SUBJECT: (HR & Labor Management (1HR87); Business Management (1BU42); Lay offs (1LA48); Business Strategy (1BU97); Plant Closings (1PL71); Labor Relations (1LA21); Corporate Strategy & Strategic Planning (1XO03); Economics & Trade (1EC26))

INDUSTRY: (Oil (1OI41); Theoretical Analysis (1TH79); Manufacturing (1MA74); Transportation (1TR48); Oil & Gas Prices (1OI34); Land Transportation (1LA43); Automotive Models (1AU61); Oil & Gas (1OI76); Passenger Transportation (1PA35); Science & Engineering (1SC33); Automobiles (1AU45); Automotive (1AU29); Business Theory (1BU14))

REGION: (North America (1NO39); Americas (1AM92); USA (1US73); Michigan (1MI45); Canada (1CA33))

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Section: BUSINESS

DIESEL TECHNOLOGY REVS UP AFTER YEARS OF LINGERING IDLE

JIM DuPLESSIS Staff Writer

Enginemakers are taking another run at bringing diesel-powered vehicles to the masses. If they succeed, it means more jobs for the Midlands.

About 25 people working in Siemens' new research center near Blythewood are setting up equipment to help develop diesel engines with less pollution and greater acceleration than their sooty, sluggish ancestors.

So far, diesels have been slow to gain a bigger share of the U.S. passenger car and light truck market. But Columbia could gain jobs if diesel sales accelerate by the end of the decade, as Siemens and rival Bosch predict.

Fuel savings was the big draw for diesel engines 20 or 30 years ago, but the trade-offs included fumes, noise and tank-like acceleration. The newer engines are cleaner, quieter and more robust. They're not only more powerful but have faster acceleration than comparable gasoline engines.

Siemens' 17,500-square-foot research center, in the Carolina Research Park off Farrow Road and Interstate 77, is expected to employ about 120 people by year's end. A few miles away, about 500 workers make diesel-fuel injectors for Ford F-250 and F-350 "superduty" pickups.

The \$175 million Blythewood manufacturing plant opened in 2000 in a partnership with Siemens, the Munich electronics giant, and Navistar International of Chicago, builder of International trucks.

Last year, a Siemens official said the plant's employment probably would double by 2010 if Siemens' projections for U.S. diesel growth held true.

The end of the decade is nearly here for Julian Dench, director of Siemens' North American diesel systems in Columbia.

After Siemens develops a new diesel-injection system and makes its first sale to an automaker, the system will take three to five years to reach a showroom. The company now pitches systems that will go into cars starting production in

2008 and 2009. To add jobs in Columbia, Siemens needs success with U.S. automakers.

"It's a global business, and we have to balance that employment. We can't keep investing \$30 million to \$80 million per year in one market if we have other capacity staying idle," Dench said.

That's a lesson South Carolina should know well.

In 1980, three S.C. plants were open or planned make engine parts for a predicted diesel boom that went bust:

* United Technologies had plans to employ 1,400 people at a plant off Killian Road. Employment reached 440 before the company sold the diesel division to Ambac International in 1987.

The plant employed about 100 workers making parts for Army tanks when it moved to a smaller building near Pontiac in 2002.]

* Lucas, a British automotive parts maker, opened a plant in Greenville in 1979 to make diesel injectors for a diesel Oldsmobile, GM's attempt to match the success of Mercedes-Benz in the diesel passenger car field.

Flaws in GM's engine led the Detroit automaker to drop the line in 1984, causing Lucas to lay off all but 250 workers. The plant started making gasoline injectors, but it closed a few years ago.

* Bosch opened a plant in Charleston in 1974 to make diesel fuel pumps.

In 1984, Bosch shifted production to gasoline injectors and other parts; diesel returned the lineup in 2001, when the company began making diesel-injection systems. The plant now employs 2,300 workers.

Fewer than 3 percent of cars and light trucks sold in North America in 2003 were diesels, according to J.D. Power & Associates, a marketing-information firm in California.

Siemens expects automakers to sell 2.5 million diesel vehicles in 2011. Bosch had made a similar forecast but last November said it would not reach that level until 2014.

J.D. Power forecasts that diesel will begin growing after 2007, and reach yearly sales of 1 million to 2 million vehicles by 2013 to 2014, or 10 percent to 15 percent of total sales.

Siemens and Bosch expect an old-fashioned sales tactic will goose sales: selling diesel as a premium product on high-end vehicles, and moving them downstream to humbler cousins.

FRUGAL OR FUN

Drivers already pay a premium for diesel, usually \$1,200 to \$1,500. The markups have been shrinking, but diesels will have to comply with tougher emissions standards, further raising costs.

"They have the technology to do it," such as catalytic converters. "They work, but they're expensive," said Walter S. **McManus**, director of the Office for the Study of Automotive Transportation at the University of Michigan's Transportation Research Institute.

The upfront costs make the fuel savings from diesel minimal. On Chrysler's Jeep Liberty, drivers have to log about

100,000 miles before the gas savings pay off the diesel premium. Another factor is durability: Diesels last much longer than gasoline engines.

Ford decided last year not to introduce the diesel version of its Ford Focus in the United States. Jim Padilla, Ford's chief operating officer, told Automotive News that the extra cost would be too high for small cars, and Ford should concentrate on selling diesels in trucks.

Ford has been pushing diesel versions its F-250 and F-350 pickups, and it has noticed that the fastest growth has been their purchase as personal vehicles used for work during the week and for weekend play.

Those buyers also are more likely to opt for the leather seats, moon roofs and other luxury features.

About 75 percent of the superduty pickups are diesel, the preferred option for towing heavy loads, such as horse trailers or construction materials. Along the way, the diesels have picked up a following among the weekend set, said Phil O'Conner, Ford's marketing manager for superduty trucks.

"There's a little bit of a muscle-car mentality with them. They love the power. They love the torque. They love being able to accelerate going up a hill," he said.

DREAMING UP

Close relations drive full-size pickups, a fact that has not escaped O'Conner's notice.

"It's definitely a move-up vehicle for F-150 owners," he said.

It's the same all over the world.

But in Europe, the diesel lovers might be driving Jaguars, Audis or BMWs.

In Europe, diesel sales have risen from 15 percent of new-car sales in 1991 to a little more than half last year.

One reason is higher fuel prices and a longtime affection for small cars. Other reasons are turbo-chargers and common-rail fuel injection systems, introduced by Audi in 1989 and becoming widespread in European models since 1997.

The fastest growth for diesel has been among high-end cars, said Wolfgang Chur, a management board member in charge of sales to automakers for Bosch, the world's largest supplier of diesel injectors. In Europe, he said, diesel's high end means luxury and sports cars; in the United States it means sport-utility vehicles, vans and pickups.

Therein lies the key to selling diesels in the United States, **McManus** said.

"They're more fun to drive," **McManus** said.

A SALES PICKUP?

Ford is moving toward offering diesel for its full-size F-150 pickup. If that works, Ford could sell diesels in sport-utility vehicles, **McManus** said.

"It makes sense for the power and torque they have in those applications," he said.

Todd Eckert, Ford's truck-marketing manager, would not say whether Ford would move the diesel down to the F-150 but said he was watching the trends in the truck market:

"We're looking for opportunities."

For Siemens and Bosch, moving diesels from a superduty truck to a full-size truck means a smaller engine but a lot more fuel injectors.

Ford expects to sell more than 900,000 F-150s this year.

"A small market in North America is a big market in Europe," Dench said.

DIESEL BY DOLLARS

Diesel cars and trucks get better mileage than gasoline-powered vehicles, but real savings come after paying the higher upfront cost of diesel engines. On Chrysler's Jeep Liberty, you have to drive about 100,000 miles to pay off the diesel premium.

Here's the math:

Diesel cost an average of \$2.02 per gallon over the past year, compared with \$1.93 per gallon for gasoline, according to the U.S. Department of Energy.

But diesel is more fuel efficient. The Liberty CRD, the diesel version, gets 25 mpg, compared with about 20 mpg for its comparable 3.7-liter gasoline-powered 4x4.

That would make the cost of gasoline about 10 cents per mile, compared with 8 cents for diesel, a savings of 2 cents per mile.

But the diesel option costs an extra \$2,020 upfront. That means you would have to drive about 100,000 miles before you would start saving any money from the diesel's fuel efficiency.

DIESEL VS. GASOLINE

The crude oil pumped from the ground doesn't go directly from the ground into your tank. The petroleum (better known as "black gold" or "Texas tea" to Beverly Hillbillies aficionados) can be processed into a variety of fuel types through distillation.

Distillation happens in an oil refinery, where oil is heated and different molecule chains are separated by the temperature at which they vaporize.

Gasoline is a "light" fuel compared to diesel. Gasoline is ignited in a gas engine by the spark plugs.

Diesel is a "heavier" fuel and "dirtier" than gasoline. (Diesel can be frozen, for example.) Diesel fuel ignites spontaneously when injected into the compressed, hot air in the combustion chamber of an engine.

SOURCES: Exxon Corp., www.howstuffworks.com

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INDUSTRY: (Automotive (1AU29); Trucks (1TR73); Automotive Retail & Distribution (1AU77); Automobiles (1AU45); Diesel (1DI26); Oil & Gas (1OI76); Gasoline (1GA40); Automotive Retail (1AU31); Land Transportation (1LA43); Automotive Models (1AU61); Transportation (1TR48); Automotive Parts Manufacturing (1AU98); Automotive Manufacturing (1AU46); Passenger Transportation (1PA35); Downstream Oil (1DO72); Manufacturing (1MA74); Automotive Fuels (1AU95))

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Section: NATIONAL

SUVs become beasts of burden

Oliver Prichard INQUIRER STAFF WRITER

When he was shopping for a car two years ago, Kyle Kaufmann found everything he wanted in a Ford Expedition: horsepower to haul his 22-foot skiff, cargo space for fishing and golf gear, and more leather than Michael Jackson's Thriller years.

But as fuel prices climbed to record highs this year, Kaufmann took a sales job that had him behind the wheel 750 miles a week.

Like thousands of other Americans, he reached a conclusion that's proving quite costly for the makers of large SUVs:

Some vehicles aren't worth their weight.

"The truck was great, but between the payments and gas, it cost me \$700 a month," said Kaufmann, 31, of Marlton. "At that price, I should be driving a Ferrari."

The relentless rise of the SUV has fallen off, and most precipitously for such 7,000-pound behemoths as the Ford Expedition, Chevrolet Suburban and GMC Yukon, recent sales data show.

After a decade and a half of tremendous growth, total SUV sales are down 10.2 percent for the first quarter of 2005. In April, the biggest class of SUVs dropped 21.7 percent from the same month in 2004, according to WardsAuto.com, a sales-tracking firm.

Industry experts point to a number of causes: sky-high pump prices that show no sign of abating, growing consumer preference for smaller SUVs with better handling and fuel economy, and late-stage product cycles that have many buyers waiting for the next generation of their favorite trucks.

SUVs exploded in popularity during the 1990s. Annual sales more than tripled between 1990 and 2000, when a record 2.98 million were sold.

Built on the same platform as pickups, SUVs coupled the height and off-road performance of trucks with the interior

comfort of luxury sedans, commanding top dollar amid America's increasing wealth.

But the sweet spot for monstrous SUVs was "an image thing" that is quickly losing its luster in the era of the \$65 fill-up, said Jeff DeFelice, owner of DeFelice Chevrolet in Point Pleasant, N.J.

"It's fading away because now people realize it's just not a good value," DeFelice said. "The guy who went into debt to buy a Hummer is probably real tired of it by now."

The slump is taking its toll on some automakers.

At Ford and General Motors, diminished SUV sales have contributed to falling share prices and the recent downgrade of their bonds to "junk" status.

Having long relied on healthy profit margins from SUVs to buoy their entire product lines, both companies are seeking a foothold in the market for smaller - or "crossover" - SUVs, which have been enormously successful for Japanese and European makers.

Based on sedan or wagon platforms, crossovers offer the taller stances and cargo room of traditional SUVs, but with better road agility and fuel efficiency.

Models such as the Lexus RX 330, BMW X3, Acura MDX and Toyota Highlander have helped make crossover vehicles among the fastest-growing auto segments, and the only SUV type with increasing market share.

Car companies are taking notice. GM plans to launch more than a dozen crossover models in the coming years. To boost efficiency even further, Ford, Toyota and Lexus have released gas-electric hybrid versions of their crossover SUVs.

In April, the national gas average hit a record high of \$2.28 a gallon, up from \$1.26 in 1990 and \$1.51 in 2000, according to the AAA. (Adjusted for inflation, gasoline in 1990 would have cost \$1.85 in current dollars and \$1.68 in 2000.)

Prices now hover at \$2.11 a gallon.

Still, GM executives, who saw sales of large SUVs plummet by 35.6 percent in April, insist that fuel prices have had only a "marginal impact" on flagging sales.

Fuel prices are not "the primary cause" of weak SUV sales, said GM spokeswoman Deborah Silverman, adding that a late product cycle - GM will offer redesigned Suburban and Yukon models for 2007 - and the rise of crossovers are more significant factors.

For many drivers, however, the lure of smaller SUVs is all about gas prices.

Take Carmen Pagan: A commercial truck driver from North Philadelphia, she feels claustrophobic in small cars. A few years ago, Pagan settled on a Chevy Tahoe and its 15 miles per gallon.

But as the cost of fill-ups crept above \$60 a week, Pagan reconsidered her needs, opting instead for a Lexus RX 300, which gets closer to 20 miles per gallon and costs only \$40 to fill.

She expects to save more than \$1,000 a year on gas.

"I just need enough space to fit a barbecue grill and some beach chairs," said Pagan, 33. "I still get that with the Lexus, but I'm saving money."

The sheer number of choices available in today's vehicle market could put a permanent dent in large SUV sales, said Walter **McManus**, a former GM economist who is now an analyst at the University of Michigan's Transportation Research Institute.

A few years ago, drivers who wanted high seating and ample cargo space had little choice but to buy a large SUV, he said. That's no longer the case.

"If all you ever wanted was that feeling of being above other people on the road, and you can get that look without some of the cost . . . then you'll do it," **McManus** said.

Drivers who tow boats or campers, haul heavy loads, or travel off-road will still buy SUVs, but they are "fewer in number," **McManus** said.

So on car lots across the country, sales managers are offering steep incentives to keep their SUV inventories from stagnating.

And truck owners such as Kaufmann, who wants to unload his Expedition for a midsize pickup, are seeing the bottom drop out of resale values.

"I listed mine for \$500 less than the dealers are asking, but the market seems flooded with these things," Kaufmann said. "I'll probably have to trade it in."

Contact staff writer Oliver Prichard at 610-313-8219 or oprichard@phillynews.com.

---- INDEX REFERENCES ----

COMPANY: GENERAL MOTORS CORP; TOYOTA MOTOR CORP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Transportation (1TR48); Land Transportation (1LA43); Automobiles (1AU45); Automotive (1AU29); Vans (1VA41); Automotive Models (1AU61); Manufacturing (1MA74); Passenger Transportation (1PA35))

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May 21, 2005

Asian Carmakers Settle Into the South

Greg Schneider

As profits fall and sales slump at General Motors Corp. and Ford Motor Co., thousands of autoworkers gathered in Montgomery, Ala., yesterday to celebrate the opening of a \$1.1 billion factory to build Hyundais. The Alabama factory, the first in the United States for the South Korean company, is the latest in a parade of foreign-owned facilities springing up throughout the South. Each one -- Nissan Motor Co. opened a factory in 2003 in Mississippi, a Toyota Motor Corp. truck plant cranks up next year in Texas -- is another sledgehammer swing at the crumbling fortunes of Ford and GM. A new U.S.

auto industry is emerging in which no single company is as dominant as GM once was and the lines between foreign and domestic manufacturers are increasingly blurred. While Detroit suffers, the rest of the industry is doing rather well. Jobs and factory production are down in Michigan but rising in the South. "It's a zero-sum game," said Walter **McManus** of the Office for the Study of Automotive Transportation at the University of Michigan at Ann Arbor. Detroit's factories already build more vehicles than they can sell, so 300,000 new Hyundai Sonatas flowing out of Alabama every year will just make GM and Ford have to cut their own production further, he said. Asian-owned companies continue to take a greater share of the U.S. market with vehicles that consumers perceive as having better quality and better value than the American competition. Even as Ford and GM scramble to catch up with improved products, the foreign companies use greater efficiency and higher profit margins to widen their lead. Toyota has so much cash on hand that it has been able to absorb losses on gas-electric hybrid technology to spark the Prius phenomenon. "There's a touch of unfairness to all this," **McManus** said. That's because the rules are different for outsiders building new plants than they are for old-timers dealing with an aging infrastructure and workforce, such as GM and Ford. Hyundai's non-unionized plant, for example, will pay most of its 2,000 employees a starting wage of \$14.46 an hour, far below the \$20-plus hourly wages for comparable United Auto Workers members in Michigan. The Hyundai workers also will have to contribute \$14.54 every two weeks for health coverage, which is free to employees under UAW contracts. There is no pension available to the Hyundai workforce; instead, employees have a 401(k) plan. By contrast, GM, Ford and the Chrysler Group of DaimlerChrysler AG carry more than 800,000 retirees and family members on their pension rolls at a total cost of \$11 billion per year. The companies estimate that about \$1,500 of the cost of building each vehicle goes toward health care -- several times what Hyundai pays. That's part of the reason Hyundai can offer a laundry list of safety features on the new Sonata, quality that ranks near the top of the auto industry and a price that undercuts competitors at Honda and Toyota -- and still make more profit than GM. Those factors "create winners and losers, and they create enormous change and adjustment" for the industry, said Dana Johnson, chief economist for Detroit's Comerica Bank. "It's very positive for the Southeast in particular, and very challenging for the Midwest and Michigan in particular." Alabama has especially benefited from the procession of automakers to that region. Its defunct railroad, steel and textile industries have been replaced, with Mercedes-Benz

building a plant in the town of Vance in 1997 and Honda locating a van factory in Lincoln in 2001. Both of those factories are under expansion, and along with Hyundai have attracted dozens more companies that supply parts and services. "This is our salvation at this point, our new critical mass of employment," said Keivan Deravi, an Auburn University Montgomery economics professor. The auto companies and suppliers account for up to 40,000 workers statewide, have invested billions of dollars and have caused the state to revamp its education and worker training programs, Deravi said. Rural Crenshaw County, for example, lost five textile mills in recent years to cheap foreign competition. Those jobs have been more than recouped, and at higher wages, by companies supplying the nearby Hyundai plant, said Doni Ingram, the county's economic development director. The new jobs are no less welcome just because they're tied to an overseas employer, Ingram said. The community has embraced the Koreans, she said, with residents signing up to "sponsor" newly arrived Korean families, staging a cultural festival during the fall and welcoming the outsiders to churches and schools. "All my Koreans call me 'mama,'" Ingram said. "They're very friendly, very family-oriented, very outdoor people. So they fit in the southern part of the United States very well." As Americans take on more of the supervisory roles at the plant, she said, the Sonatas built there no longer seem like foreign cars. They're homegrown. "We should all be driving a Hyundai in Crenshaw County," she said. Detroit automakers complain that they don't get the same acceptance and chance to compete in Korea, which is a tightly controlled market. But they also suffer from changing demographics within the United States, which increasingly work against plants located in the old industrial belt. Factories like to be near their customer bases to cut down on distribution costs, and the South is a more attractive market than the Midwest, according to a 2003 study by the Center for Automotive Research in Ann Arbor. With population rising faster in the South and auto sales declining in the Midwest, "the demand to add more regional assembly plants -- and the jobs that go with them -- is likely to remain high in the south to the detriment of the traditional automobile states in the north," the study concluded. It won't be easy for old-line automakers to take advantage of that trend. The cost of shutting down old factories and rebuilding in new places is prohibitive -- as demonstrated last week when GM closed its 70-year-old van plant in Baltimore. Under the UAW contract, GM could not lay off its 1,100 workers. It had to offer them a lump-sum buyout so they could retire or keep them on the payroll for two more years, whether they work or not. Experts say Detroit's Big Three, counting the Chrysler Group, are going to have to rework their union contracts and eke out the right to cut jobs and benefits to remain competitive. For example, the three companies recently published a brochure touting their enormous contributions to the U.S. economy, noting that they still employ about 86 percent of all U.S. autoworkers. But the same brochure noted that those workers build 74 percent of the vehicles produced in this country each year -- suggesting, inadvertently, that foreign-owned companies produce more with fewer people. "There's a lot of work for those guys to do," said Johnson, the Comerica economist. "The car companies are in a fiercely competitive environment, and they've got to become more efficient and assemble cars with less labor costs. It just has to happen." Staff writer Warren Brown contributed to this report from Alabama. Kyeong Tae Kim, at right, watches Thursday as Sandra McBryde uses a rubbing stone to smooth Hyundai doors.

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COMPANY: PENSKE AUTOMOTIVE GROUP INC; HYUNDAI MOTOR CO; CHRYSLER GROUP LLC; NISSAN MOTOR CO LTD; TOYOTA MOTOR CORP; DAIMLER AG; HONDA MOTOR CO LTD; INGRAM MICRO INC; FORD MOTOR CO; MOTORS LIQUIDATION CO

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Section: FEATURES, PLANET

CAN HYBRIDS SAVE US FROM FOREIGN OIL?

By Mark Clayton Staff writer of The Christian Science Monitor

Actress Cameron Diaz and Roy Jefferson, a retired government accountant from Fargo, N.D., have something in common: They both love their hybrid gas-electric cars that get 50-plus miles per gallon.

"I laugh when I go by the gas stations" without filling up, says Mr. Jefferson, an octogenarian.

The growing enthusiasm for hybrids is rattling the faith of America's automakers, who have long believed that consumers don't care about fuel efficiency. And it has opened the door to a new theory that hybrid cars - long predicted to be a niche market and a way station to future hydrogen autos - are themselves the answer to revolutionize the fleet and trim the nation's surging dependence on foreign oil.

For proponents of energy independence in the United States, the current level of dependency is worrisome. Last year, 56 percent of the nation's oil - some 11 million barrels a day - came from abroad. That's far more than the one-third share imported during the first oil crisis of the 1970s. And it's halfway to the two-thirds share projected for 2025, if nothing changes.

To reduce that dependence will require a massive modernization of America's transportation fleet, especially more efficient passenger cars and light trucks. So are hybrids up to the task?

Most auto analysts still say no, since an enormous number of hybrids would have to be sold over more than a decade to have a real impact. Still, demand for hybrids, the Prius in particular, is so strong that customers are waiting weeks to get one. Some used 2004 Priuses are selling for thousands of dollars more than the cost of a new one. On Tuesday, Toyota announced it would begin building its first North American hybrid car in 2006 at its Georgetown, Ky., plant.

The numbers are turning some heads.

"I was a huge skeptic," says Walter **McManus**, an auto industry researcher at the University of Michigan's Transportation Research Institute in Ann Arbor. "But I've basically crossed over to the dark side. You can't argue with the market reaction." He estimates Toyota, Honda, and others will sell at least 1.2 million hybrid vehicles by 2010 - about 7 percent of the US market - and possibly much higher.

If all US cars (not including light trucks) were Priuses today, the nation would save 15 percent more oil than it received from the Persian Gulf in 2002, writes energy-efficiency guru Amory Lovins in his recent book "Winning the Oil Endgame."

Of course, a sudden switch is virtually impossible, since there are roughly 235 million cars and light trucks on the road in the US today. Less than one-tenth of 1 percent of those - some 200,000 - are hybrids. So the speed of the conversion will determine how much imported oil the nation might save.

"In our view the hybrids represent a long-term trend toward a dramatically more efficient fleet," concluded consulting firm Booz Allen Hamilton in a 2004 report.

For example: If consumers keep snapping up hybrids and automakers begin to integrate the technology throughout their product lines - including pickup trucks - then hybrids might quickly reach 20 percent of new vehicle sales by 2010 and 80 percent by 2015, according to another Booz Allen Hamilton report. That's the most optimistic of three scenarios the management consulting firm laid out. In the "high adoption" scenario, hybrids would save 2 million barrels of gasoline a day by 2015; in the "medium adoption" scenario, 800,000 barrels of gasoline.

Other estimates vary widely. Hybrids could be 10 percent to 15 percent of new vehicle sales by 2012, the Department of Energy's Oak Ridge National Laboratory concluded in a report last summer. Together, hybrids and efficient "clean diesels" could be 40 percent of new car sales by then if the technologies are widely adopted, it said.

But with gasoline use increasing 1.7 percent a year through 2025, hybrids' impact on oil consumption will be small, according to the latest outlook by the US Department of Energy. It predicts only 1.1 million hybrids will be sold in 2025. Even in the most optimistic case, assuming rapid adoption of hybrid and other car technologies, the US would still chop only 172 million barrels of oil a year by 2025 - about 2.5 percent of expected oil imports that year. On the other side, Mr. **McManus** predicts more hybrids will be sold in 2010 than the DOE's 2025 estimate.

So who's right? Consumers are eager. Last month, 49 percent of new-car buyers, the highest level ever, had changed their mind or were thinking strongly about buying a vehicle they would not have considered because of gas prices, according to a survey by Harris Interactive and Kelley Blue Book.

"We're going to have many, many choices," says Ron Cogan, editor and publisher of Green Car Journal, a monthly magazine devoted to energy-efficient and environmentally friendlier cars. "Hybrids are here right now. They're quite clearly the next big thing. To look off into the future for hydrogen is not giving enough credit to what we have here and now."

Nissan plans to offer a hybrid version of its popular Altima model using Toyota technology next year. Even GM says it will soon offer "mild hybrid" technology that stops a car's motor while stuck in traffic - and automatically restarts it. At least 17 hybrid-electric models will be available in the US market by 2006 with 38 forecast by 2011, market research company J.D. Power and Associates reported in February.

Even so, the company is not bullish about hybrids. "Despite the significant growth in the number of models and annual sales over the next five years, we anticipate hybrid market share to reach a plateau of about 3 percent near the end of the decade," writes Anthony Pratt, a senior manager at J.D. Power, in the report.

Conventional wisdom holds that the long-expected growth of hybrids will be slow. Skeptics abound.

"They make a nice story, but they're not a good business story yet because the value is lower than the cost," said Carlos

Ghosn, chief executive of Nissan Motor Co., at the National Automobile Dealers Association convention in New Orleans in January.

Even **McManus** - the hybrid cynic-turned-believer - has serious doubts about how big an impact even a massive surge in hybrid sales will have on reducing America's oil dependence. His analysis, for instance, shows a "rebound effect." For every 1 percent decline in the cost of fuel, Americans drive 1.85 percent more.

Another factor working against hybrids' overall impact on cutting oil imports is the rising number of vehicles on American roads. The fleet grows about 1 percent a year. "I can't imagine a circumstance where we can reduce it enough to cut a significant portion of what we get from over there," **McManus** says.

Nevertheless, with gasoline prices at more than \$2 a gallon, Detroit auto executives seem to be changing tack. Hybrids could be everywhere in the future, if hybrid is defined broadly as any vehicle that uses more than one method of providing power to the tires, some say.

"If you think about the 15- to 20-year time frame, you could argue that all vehicles are going to be hybrids," Michael Tamor, manager of Ford Motor Co.'s Sustainable Mobility Technologies, reportedly told a conference of the Society of Automotive Engineers' in February. Meanwhile, the head of GM, Robert Wagoner, has recently said hybrids are important after all. The company is said to be seeking access to Toyota's hybrid technology.

"All we've been hearing for 15 years is that consumers don't care about fuel efficiency, that they care more about cupholders than fuel economy," says Bradley Berman, editor and publisher of Hybridcars.com. "I would say that fuel economy is the new cupholder."

If hybrids do indeed become the "next big thing," with a bigger impact on US oil consumption than is still today widely believed, it probably won't be because of eco-celebrities like Ms. Diaz, but because of a shift by masses of ordinary Americans, Mr. Cogan says.

Unlike Diaz, who has her own environmental show on television, Mr. Jefferson, is an avowed Republican who doesn't at all mind drilling for more oil in Alaska's wildlife refuge. Still, three years ago he decided he wanted something different in a car. And he liked the idea of cutting pollution a bit - and helping the US rely less on foreign oil, too. So he bought a Toyota Prius.

What does he think of hybrids? Are they the next big thing that will help America get free from imported oil? "I'm no scientist," he says. "But I wouldn't bet against it."

* Second article in an occasional series. Part 1 appeared May 5.

America drives

It's a love affair that has lasted decades and makes it hard for Americans to curb their driving, even when gasoline prices soar. Nevertheless, two oil crises and improved technology have had an impact. For example:

* In 1975, the car with the lowest fuel efficiency was General Motors' Toronado, with a combined city/highway rating of 8.4 miles per gallon. By 2004, American-made cars were more efficient, leaving the Lamborghini L147 at the bottom rung with 10.6 m.p.g.

* The most fuel-efficient cars belonged to the Japanese in 1975. The Honda Civic CVCC got a combined 28.3 m.p.g. After several years in which Volkswagen and General Motors prevailed, top honors returned to Honda. In 2004, its

hybrid Insight got 62.6 m.p.g.

* In 1970, before the first oil crisis, the average passenger car used 737 gallons of gas a year. After dropping to 506 in 1990, the average climbed back to 550 gallons in 2003.

Sources: US EPA; Bureau of Transportation Statistics

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Red-hot demand for Priuses causes doubters to take second look.

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COMPANY: NISSAN MOTOR CO LTD; BOOZ ALLEN HAMILTON INC; OAK RIDGE NATIONAL LABORATORY; TOYOTA MOTOR CORP; VOLKSWAGEN AG; VOLKSWAGEN; TOYOTA; GENERAL MOTORS CORP; ASTON MARTIN LAGONDA LTD; FORD MOTOR CO; NATIONAL AUTOMOBILE DEALERS ASSOCIATION; BOOZ ALLEN AND HAMILTON INC; US DEPARTMENT OF ENERGY

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May 17, 2005

Profile: Fuel-efficient hybrid car sales

MELISSA BLOCK, host:

From NPR News, this is ALL THINGS CONSIDERED. I'm Melissa Block.

MICHELE NORRIS, host:

And I'm Michele Norris.

Toyota announced today that it will begin making a hybrid version of its popular Camry sedan next year. The company's top US executive, Jim Press, says the fuel-saving cars will be built at an existing Toyota plant in Kentucky.

Mr. JIM PRESS (Toyota): Just imagine, America's favorite car being built on American soil to address the needs of Americans' increasing concern about the environmental impact in our society's dependency on oil.

NORRIS: That concern and rising gas prices have helped fuel a doubling in hybrid sales this year. But gas/electric vehicles still represent less than 2 percent of overall car sales, and experts are divided about how much of a dent these cars will make in the nation's long-term thirst for gasoline. NPR's Scott Horsley reports.

SCOTT HORSLEY reporting:

Toyota credits the popularity of its Prius hybrid with helping to boost North American sales last year by 8 percent. There are tens of thousands of hybrid owners on the road, including Toni Cruise(ph), who was introduced to her new silver Prius just last week at a dealership outside San Diego.

Unidentified Man: The headlights are right here. And there's your washer wipers, right here.

Ms. TONI CRUISE (Hybrid Car Owner): Thank you.

Unidentified Man: OK?

HORSLEY: At first, Cruise was a little overwhelmed by the car's high-tech navigation system. But after a quick drive around the neighborhood, she's happy with her energy-saving choice.

Ms. CRUISE: Oh, I'm excited about it. We needed a vehicle with good gas mileage. We have another Toyota, and it's a very high gas consumer. It's a Sequoia. So this is to offset that.

HORSLEY: Precious Priuses have been moving quickly off of dealers' lots even before the price of gasoline topped \$2 a gallon. General sales manager Harold Dean says this dealership sells about a dozen Priuses each month. He could sell three times that many if he had the cars.

Mr. HAROLD DEAN (Toyota Dealership Sales Manager): They've been strong for going on our third year now. Toyota's done their part, they doubled the production, but it sounds like they should've tripled it.

HORSLEY: But hybrid sales will have to grow a lot more to make a significant difference in overall demand for gasoline. The California Energy Commission held a workshop today on how much gas the state's drivers will need over the next 20 years. One question the staff has wrestled with is how many of those drivers will be behind the wheel of hybrids or other fuel-efficient vehicles. As a strict economic calculation, the gasoline savings of a hybrid may not be worth the higher up-front cost. K.G. Duleep, who's a consultant to the commission, says many of the early adopters of hybrids have had more in mind than just saving money on gasoline.

Mr. K.G. DULEEP (Consultant, California Energy Commission): There's certainly an element of concern over the environment and greenhouse gas warming that's motivating people to buy it. And I also suspect that war in Iraq and the situation in the Middle East plays a part in people's desire to conserve gasoline.

HORSLEY: Duleep thinks hybrids might ultimately account for about 15 percent of all car sales, with fuel-efficient diesels making up a similar fraction. Forecasters at J.D. Power and Associates are much less bullish about hybrids. They think sales will top out around 3 percent of the market.

Even if hybrid sales grow faster than that, it would take years to make much difference in the fuel consumption of the 230 million vehicles on the road. Walter McManus, who studies the auto industry at the University of Michigan, warns there's also a danger called the rebound effect.

Mr. WALTER McMANUS (University of Michigan): Suppose you had a fairy godmother who could wave a wand and improve the fuel economy of every existing vehicle by 10 percent. How much fuel would we consume? And if you said 10 percent less, that's not correct because what you've done is lower the cost of driving. And Americans drive more whenever the cost of driving is lower.

HORSLEY: That hasn't stopped Toyota, though. The company's Jim Press predicts that within 20 years, there will be a hybrid version of every vehicle on the road. Scott Horsley, NPR News, San Diego.

---- INDEX REFERENCES ---

COMPANY: CALIFORNIA ENERGY COMMISSION

NEWS SUBJECT: (Company Profiles (1CO63); Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Land Transportation (1LA43); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Automobiles (1AU45); Automotive (1AU29))

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April 27, 2005

Michael Jackson Trial; Stand and Shoot; Hybrid or SUV

Daryn Kagan, Ted Rowlands, John Zarrella, Chris Huntington

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DARYN KAGAN, CNN ANCHOR: Here's a look at what's happening right Now in the News. House Speaker Dennis Hastert says he's willing to repeal new ethics rules that came under fire from Democrats. Democrats said the changes were designed to protect embattled Majority Leader Tom DeLay. Hastert made the announcement within the last half-hour. You saw it live right here on CNN.

A suspect has been arrested in a string of arsons in the D.C. area. The Bureau of Alcohol, Tobacco and Firearms says the arrest was made in Maryland today. The serial arsonist is suspected in more than 40 fires in the area.

The man who will be Iraq's new prime minister says a vote on a government will come tomorrow in the transitional assembly. Ibrahim al-Jaafari submitted his list of cabinet officials today. He did not reveal any names, but al-Jaafari says the government will reflect Iraq's diverse ethnic population.

Police in Iraq say a female member of the Iraqi National Assembly was assassinated today. She was gunned down

outside her house in eastern Baghdad.

The woman is the first assembly member killed since the January 30 elections. But there had been other attempted assassinations in recent days.

Accounting firm Arthur Andersen is before the Supreme Court this morning trying to overturn a criminal conviction stemming from the Enron scandal. The firm was convicted of corruptly encouraging employees to shred tons of Enron documents. Arthur Andersen is challenging the judge's instructions to the jury.

Just a minute past 11:00 a.m. on the East Coast. For those of you joining us from the West, 8:00 a.m. for you.

From CNN Center in Atlanta, good morning once again. I'm Daryn Kagan.

First, to the Michael Jackson trial. At this hour, they shared a three-year marriage and two children. And undoubtedly, there are a lot of secrets there. Today, Debbie Rowe is a witness for prosecution in the child molestation trial. Court begins in 30 minutes.

CNN's Ted Rowlands gives us a preview now from Santa Maria, California.

(BEGIN VIDEOTAPE)

TED ROWLANDS, CNN CORRESPONDENT (voice-over): Debbie Rowe, Michael Jackson's ex-wife, is expected on the stand this morning. What she says could make or break the conspiracy portion of the prosecution's case against Jackson. Rowe is expected to say that Jackson himself is in the middle of a deal to get her to participate in a pro-Michael Jackson video.

CRAIG SMITH, LEGAL ANALYST: Given what they're left with, Debbie Rowe is probably their strongest way to finish up. She brings with her the aura that she's an insider and has information to tell about what really went on with Michael Jackson and what it's like to live there.

ROWLANDS: But Rowe may be unable or unwilling to say too much about Jackson. She's currently involved in a custody battle with him, and Judge Rodney Melville has indicated that he plans to restrict her testimony.

ANDREW COHEN, LEGAL ANALYST: And I think she's going to given instant credibility because of who she is, her relationship with Jackson and what she may know. And the unanswered question is, how much does she get to say before Thomas Mesereau and the judge cut her off?

ROWLANDS: In court yesterday, a travel consultant said she was told by a Jackson associate to arrange a one-way trip for the accuser's family to Brazil. A former Jackson photographer then took the stand and said he overheard a telephone conversation about getting the family out of the country.

Prosecutors hope both witnesses will help bolster the claim that Jackson and his associates planned to force the accuser's family to Brazil. The same travel consultant has been questioned by the FBI about her role in secretly videotaping Jackson on a private flight that she organized.

(on camera): The photographer, Hamid Moslehi, will be on the stand when court resumes. Debbie Rowe is expected to be next. Prosecutors say they will be finished presenting evidence in their case by the end of the week.

Ted Rowlands, CNN, Santa Maria, California.

(END VIDEOTAPE)

KAGAN: Topping our CNN Security Watch, concerns about the nation's color-coded terror alert system. A House committee takes up a bill today that says the system is too vague.

There's a look at it. It calls for other ways of communicating threat information to the public.

Homeland Security Secretary Michael Chertoff has said he's considering changes to the system. But he says he has no plans to scrap the color-coded warnings entirely.

The future of the Patriot Act is the focus of a hearing under way. Live picture there from the Senate Intelligence Committee.

Some provisions of the law will expire at the end of the year unless Congress renews them. Attorney General Alberto Gonzales, FBI director, Robert Mueller, and CIA director, Porter Goss, are among those testifying today. The Patriot Act was passed in the wake of the September 11 attacks to give the federal government broader powers in fighting terrorism.

An Algerian man faces sentencing today for plotting to bomb Los Angeles International Airport on the eve of the millennium. The hearing for Ahmed Ressam is set to begin at the bottom of the hour. He was caught smuggling explosives into the U.S. in December of 1999.

Prosecutors say Ressam was providing them with information on terror cells and camps. But he has stopped cooperating. They are asking for a sentence of 35 years behind bars.

A Senate panel is examining just how vulnerable the country's chemical plants are to terrorists. By some estimates out there, an attack on a plant near an urban area could kill as many as one million people. The Department of Homeland Security says it has identified 300 plants that pose the greatest risk. Officials say that security has been improved at 160 of those facilities.

There's a new Florida gun law taking effect October 1. It's called Stand Your Ground, and it allows residents to use deadly force in public if they believe they're being attacked. No longer is there a legal duty to retreat. Critics say the new law will turn Florida into a tropical wild west.

Here now, CNN's John Zarrella.

(BEGIN VIDEOTAPE)

JOHN ZARRELLA, CNN CORRESPONDENT (voice-over): A year and a half ago, Greg Drewes lost his only son.

JOHN DREWES, VICTIM'S FATHER: That's him, that's Mark. That's about three weeks before it happened.

ZARRELLA: The man who shot and killed Mark Drewes said he was sorry.

JAY LEWIS, DEFENDANT: I want to apologize to the Drewes family for their loss and for the mistake I made that night. And every day I think about your son.

ZARRELLA: The night he died, Mark Drewes and some friends were playing door-knocking pranks. Jay Levens told police he was scared. He had heard sounds outside his door, thought it was a burglar.

When he opened the door, Levens said he thought Drewes was armed and turning towards him. He shot Drewes in the back. Levens pleaded guilty to manslaughter. If the incident happened today there might have been no punishment for the man who shot Greg Drewes's son.

DREWES: It's a bad joke. It's an unbelievable, bad joke.

ZARRELLA: Under a new Florida law, the state attorney who handled the case says he might not have been able to file criminal charges.

BARRY KRISCHER, PALM BEACH CO. STATE ATTORNEY: It was my belief that it was as reasonable for him to have merely shut the door, rather than pull the trigger. Under this law, he has no obligation to shut the door. Under this law, he has a right to stand there and shoot.

ZARRELLA: The legislation, signed into law by Governor Jeb Bush, says any person can stand their ground, meet force with force, if he or she believes it's necessary to prevent death or bodily harm. There is no longer a duty to retreat, whether in your house, your car or on the street. Common sense, says the governor.

GOV. JEB BUSH (R), FLORIDA: When there's a life-threatening situation, to have to retreat and put yourself in a very precarious position defies common sense.

ZARRELLA: The Florida legislature overwhelmingly supported the bill, which was backed by the National Rifle Association. It's the kind of law the NRA says will reduce crime rates.

MARION HAMMER, NRA ACTIVIST: The law is constructed to give law-abiding people the right to protect themselves when they are attacked. I think the message to criminals is going to be -- you break into a home, you run the risk of being shot. You attack people on the street, you run the risk of being shot.

ZARRELLA: Greg Drewes fears some people will simply take advantage of it.

DREWES: You shoot somebody in anger, what are you going to say? I did it -- I made a mistake. I wasn't in danger at all. Take me away? They're all going to lie. They're all going to say, I did it protecting myself. I was in definite fear of my life.

ZARRELLA: Some states already have similar measures. Critics say the laws give people the opportunity to use deadly force even when it isn't necessary. Supporters say law-abiding people can now protect themselves without fear of prosecution.

John Zarrella, CNN, Boca Raton, Florida.

(END VIDEOTAPE)

KAGAN: CNN Security Watch keeps up to date on safety. Stay tuned day and night for the most reliable news about your security.

Rising gas prices and unhappy consumers. President Bush is offering another energy strategy. What's his new plan? We'll take a look.

And the super star of planes takes off for its maiden voyage. We go along for the superjumbo. That story is coming up.

And a bride bites her future husband before the wedding vows. That was a little glitch in a not so traditional ceremony from India. We'll take a look at that as well.

(COMMERCIAL BREAK)

(STOCK MARKET REPORT)

(COMMERCIAL BREAK)

KAGAN: President Bush is faced with some rising gas prices and some unhappy motorists. So he's going to tweak his energy strategy today.

Senior officials says he'll propose a plan to convert closed military bases into new oil refineries. There hasn't been a new one built in the U.S. in almost 30 years. Mr. Bush will also call on Congress to make it easier to build new nuclear power plants. The last one of those was built in the U.S. in 1973.

The president is feeling some political sting from record-high gas prices. An ABC- Washington Post poll finding barely a third of Americans approve of his energy policy. Fifty-four percent say they do not like it.

President Bush's energy speech you can see live here on CNN. You can watch it just shortly after 2:00 p.m. Eastern. That is 11:00 for those of you in the West.

President Bush's energy strategy also includes a tax credit when you buy a hybrid vehicle, up to \$4,000. But, here's the catch: CNN's Chris Huntington reports now that America's love affair with the SUV isn't tanking just quite yet.

(BEGIN VIDEOTAPE)

CHRIS HUNTINGTON, CNN CORRESPONDENT (voice-over): Rick Nosek is sitting pretty in his Toyota Prius hybrid.

RICK NOSEK, HYBRID OWNER: In the old days, when I drove a van, and it would cost me \$90 a week to gas up, now I'm gassing up every two weeks. It's costing me about \$16.

HUNTINGTON: Nosek says he get 40 to 50 miles per gallon. That's 10 less than the stated mileage for his model. But he enjoys the attention he receives for driving on the cutting edge. Gasoline engine for the highway, and an electric motor that kicks in for stop- and-go traffic.

NOSEK: A lot of people notice the car. And I'll get a thumb's up or I'll get a wave.

HUNTINGTON: But Nosek is far from the average American car owner. Hybrid vehicles account for less than one-fifth of one percent of the cars currently on the American road. And while demand for them has spiked with gas prices, even the most optimistic projections put hybrids at only about two percent of all American passenger cars by 2010.

That's because size still matters. DeLain Climmons and her husband Gerald (ph) own two SUVs, and they are in the

mainstream. Living in Atlanta, they don't need four-wheel drive. But they like feeling safe and say it's worth the higher fuel bill. Elaine is a real estate broker and uses her Toyota Sequoia as an office on wheels.

DELAINE CLIMMONS, SUV OWNER: Before I bought this SUV, I drove a small Mazda. It was mid-sized. And when I had clients in the car, a lot of times we were shoulder to shoulder. So it was a little bit too cozy.

HUNTINGTON: And she is philosophical about gas prices.

CLIMMONS: I need gas in my car, I need my car to make a living. And there is nothing that I can really do to influence the price of gas either way.

HUNTINGTON: Walter **McManus** studies American driving and car-buying habits. He drives an SUV.

WALTER **MCMANUS**, UNIVERSITY OF MICHIGAN: The gas price probably has to be in the neighborhood of \$5, which is kind of what it is in Europe, before you see significant change in the kinds of vehicles people buy.

HUNTINGTON: **McManus** stresses that fuel efficiency is just one of many factors, from size and horsepower, to cup holders that Americans consider when buying a car. DeLaine Climmons knows what she wants.

CLIMMONS: Even though I might consider a hybrid in the future, I do have more of a sense of security with a larger vehicle.

HUNTINGTON: Rick Nosek swears he'll never go back and has only one complaint about his hybrid.

NOSEK: I wish I had about one more inch of leg room in the driver's side.

HUNTINGTON: But he says the mileage he gets and the example he sets make up for that.

NOSEK: It makes me feel like I'm actually pulling one over on the oil companies.

(END VIDEOTAPE)

HUNTINGTON: Now, if the president's proposal of raising the tax credit available on hybrids goes through and becomes law, that could indeed inspire more production of hybrids. But, Daryn, the problem right now is that the major automakers are really just producing a very, very small amount.

As we showed you in the report there, the most optimistic projections would only put hybrids at about two percent of all vehicles on the road by 2010. So unless the automakers dramatically increase the output of hybrids into the marketplace -- and they're frankly reluctant to do that until they're sure of the demand -- then really this is just going to be a drop in the bucket, so to speak, of the impact on fuel use in this country.

KAGAN: And so, meantime, we see hybrids up on eBay with like \$2,000 or \$3,000 sticker -- not sticker price, but the price increase on top of that.

HUNTINGTON: Yes, you're seeing -- you're seeing -- and there's a lot of anecdotal evidence, particularly out in California, of people right now paying a premium for the hybrids. This could be a short-term phenomenon, and it may be a signal to the automakers that there really is demand out there.

And I've been -- we've been having extensive conversations with the automakers, Ford in particular, which has a hybrid SUV, the Escape, and is planning to make a Mercury version of the same vehicle. They're trying to gauge how many of these they should crank out. And it's a difficult think for the automakers. They don't want to have these things sitting on the lot.

KAGAN: That is the last thing an autmoaker wants. Chris Huntington, thank you.

HUNTINGTON: You're welcome.

KAGAN: We're going to do a little counting ahead of our own. One, two, three, four, five -- five babies. A surrogate mother gives birth to quintuplets. How the babies and parents are doing -- all the parents -- coming up next.

And there's new hope for those battling breast cancer. Health news coming up.

(COMMERCIAL BREAK)

KAGAN: I want to show you videotape we're just getting in from Santa Maria, California. Michael Jackson arriving at the courthouse today for another day of testimony in his child molestation trial.

Today a key day. His ex-wife, Debbie Rowe, will be taking the stand. She'll be testifying about a taped interview she gave back in 2004. It's considered a blow to the defense that she's being allowed to testify, and yet her testimony will be restricted to very specific areas.

More from Santa Maria just ahead.

A woman in Arizona delivers on her promise to help a childless couple become parents. And boy, I mean, boy, did she ever deliver.

Teresa Anderson gave birth to five baby boys. Doctors say four of the babies are doing well and should be able to go home in a few weeks. The other will have to undergo surgeries to correct a heart defect.

Anderson, by the way, did waive the \$15,000 surrogate fee to help out this newly--expanded family. Congratulations to all of them.

There is some encouraging news in the fight against breast cancer. Researchers say a drug used to treat the sickest patients now shows promise in helping even more women than that.

Our medical correspondent, Elizabeth Cohen, is here with details and our Daily Dose of health news.

Good morning.

ELIZABETH COHEN, CNN MEDICAL CORRESPONDENT: Good morning.

Daryn, the drug is called Herceptin. And doctors used to think it would only help women who had advanced breast cancer. In other words, breast cancer that had spread to other parts of the body. But now, a new study -- studies, I should say, from the National Cancer Institute show that it actually can help women who have early stage breast cancer.

They looked at more than 3,000 women, and here's what they found.

They found that these women who had early stage breast cancer, when they were only given chemotherapy, they had a 15 percent chance -- or rather a 30 percent chance that their cancer would come back. So chemo alone, 30 percent chance that the cancer would come back.

But the women who got chemotherapy plus Herceptin had only a 15 percent chance that their cancer would come back. That obviously is a huge difference. In fact, these results are so promising that doctors released them early so that all women with breast cancer would have access to the information.

Now, there are two caveats. One, is that this is a very expensive drug. A round of treatment almost \$25,000. Women without health insurance could really face some challenges here. Also, Daryn, this drug appears to cause congestive heart failure in some women. So women do have to be very carefully monitored.

KAGAN: Another one of those where you might have to make a choice.

COHEN: That's right.

KAGAN: So does it apply to all women with breast cancer?

COHEN: It doesn't apply to all women. You have to have a very specific kind of breast cancer. One out of four women have this kind of breast cancer that Herceptin appears to be able to help.

KAGAN: So they had this oh wow moment, look, it works, but do they know how it works and why it works?

COHEN: They do know how it works, because they've been using it in women with advanced breast cancer for so long. And the way that it works is that it attacks a very specific protein called HER-2. It attacks the protein, and it can even kill the cancer cells, or at least slow down their growth.

It's really a new generation of breast cancer drugs. It's very different from chemotherapy and works well with chemotherapy.

KAGAN: Thanks for that update. A lot of people will be interested in that. Elizabeth, thank you.

And for your Daily Dose of health news online, log on to our Web site. You'll find the latest medical stories, special reports, and a health library. The address is cnn.com/health.

We're going to go ahead and check in on weather.

(WEATHER REPORT)

KAGAN: The scrutiny of steroids in the sports world has now turned to football. The government and the NFL tackling the issue today with hearings on Capitol Hill. A live report coming up.

(COMMERCIAL BREAK)

KAGAN: We are very close to the half-hour. Good morning once again. I'm Daryn Kagan. Let's take a look what's happening Now in the News.

The man who will be Iraq's new prime minister says a vote on a government will come tomorrow in the transitional assembly. Ibrahim al-Jaafari submitted his list of cabinet officials today. He did not reveal any names, but al-Jaafari says the government will reflect Iraq's diverse ethnic population.

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---- INDEX REFERENCES ---

COMPANY: MAZDA MOTOR CORP; ENRON CORP; NATIONAL CANCER INSTITUTE

NEWS SUBJECT: (Violent Crime (1VI27); Legal (1LE33); Social Issues (1SO05); Forecasts (1FO11); Sex Crimes (1SE01); Population Demographics (1PO77); Major Corporations (1MA93); International Terrorism (1IN37); Technology Law (1TE30); Government (1GO80); Government Litigation (1GO18); Crime (1CR87); Civil Rights Law (1CI34); Criminal Law (1CR79))

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OTHER INDEXING: (ABC; AHMED RESSAM; BUREAU OF ALCOHOL; CHRIS HUNTINGTON; CIA; CNN; CNN MEDICAL; CNN SECURITY WATCH; COHEN; CONGRESS; COURT; DEPARTMENT OF HOMELAND; ENRON; FBI; FLORIDA; GASOLINE; HASTERT; HERCEPTIN; HOMELAND SECURITY; HOUSE SPEAKER DENNIS HASTERT; IRAQI NATIONAL ASSEMBLY; JEB; KAGAN; KAGAN: AND; MAZDA; NATIONAL CANCER INSTITUTE; NATIONAL RIFLE ASSOCIATION; NFL; NOSEK; NRA; RESSAM; ROWLANDS; SENATE; SENATE INTELLIGENCE COMMITTEE; SUPREME COURT; SUV; TOBACCO; TOYOTA PRIUS; TOYOTA SEQUOIA; VICTIM; WEATHER) (Alberto Gonzales; Anderson; Arthur Andersen; Boca Raton; Bush; CHRIS; Critics; Daryn; Daryn Kagan; Debbie Rowe; DeLain Climmons; Democrats; Drewes; Elaine; Elizabeth; Elizabeth Cohen; Fifty; Firearms; Ford; Greg Drewes; Hamid Moslehi; Ibrahim; Jaafari; Jackson; Jay Levens; Jeb Bush; JOHN DREWES; John Zarrella; Levens; Mark Drewes; Michael Chertoff; Michael Jackson; Michael Jackson Trial; Porter Goss; Prosecutors; Researchers; Robert Mueller; Rodney Melville; Rowe; Senior; STATE; Stay; Ted Rowlands; Teresa Anderson; Tom DeLay; ZARRELLA)

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November 9, 2004

Toledo, Ohio-built Jeep Liberty faces inroads from Ford Escape Hybrid

By Julie M. McKinnon

Nov. 9--Drivers who want to join a star-studded list of people who drive vehicles that reduce dependence on foreign oil and dramatically curb emissions may be more likely to buy a Ford Escape Hybrid.

Drivers who want to save some money on fuel while getting the performance of a V-6 engine and the torque of a V-8 for hauling and off-roading may turn to upcoming diesel models of the Toledo-made Jeep Liberty.

Both versions of the compact sport-utility vehicle competitors have better fuel economy than their gasoline-powered twins.

The two alternative-fuel models will more sharply divide the followings of the two SUVs, with the Escape being favored by women also concerned with the environment and the Liberty being an option for truck-loving men, said Walter **McManus**, an auto industry analyst with J.D. Power and Associates.

But when it comes down solely to which vehicle will create more buzz among those looking for green alternatives, the Escape and its low emissions will win, said Brett Smith, director of the Center for Automotive Research's product and technology forecasting group.

"The Escape has a stronger marketing angle," Mr. Smith said.

Ford Motor Co. has sold about 1,200 Escape Hybrids since the first ones were delivered in September, and the SUV's production is sold out through January, said Bryan Olson, marketing manager for the hybrid.

Prices for the Escape Hybrid, which typically uses an electric motor instead of its gasoline engine in speeds under 25 to 30 miles an hour, start at \$26,970 for front-wheel drive and \$28,595 for four-wheel drive.

The Toledo Jeep Assembly Plant will begin building diesel Libertys for U.S. dealers this month and is scheduled to have them on lots by the end of the year. All Liberty diesels will have four-wheel drive and are priced starting at \$25,125 for a Sport and \$27,355 for a Limited.

Both alternatives to gasoline engines have a slate of pros and cons depending on what kind of driving is done, industry experts and officials for both Ford and DaimlerChrysler AG said.

Towing capacity for the Escape Hybrid is 1,000 pounds and for the Liberty diesel is 5,000 pounds, making the winner of that comparison easy to see, and the diesel will have more power for acceleration.

Although the Escape Hybrid clearly gets better mileage in stop-and-go traffic, consumers will have to assess how much of that they do, said Richard Reuter, chief engineer for the Liberty.

"The diesel always gets better fuel economy," he said, than its gasoline-powered twin. A V-6 Liberty gets 17 miles a gallon in the city and 22 on the highway and a diesel Liberty gets 22 miles a gallon in the city and 27 on the highway while offering similar performance.

There isn't as high a premium on Liberty diesels compared with its gasoline-powered twins as on Escape hybrids, said Mr. **McManus** of J.D. Power. Plus, the Liberty's diesel will pay for itself in three years through fuel savings and maintaining a high resale value, while the longtime value of a hybrid is hard to gauge, he said.

Escape Hybrid buyers aren't as concerned with the SUV's price as they are with the environmental benefits, Mr. Olson said. Plus, the U.S. government gives hybrid owners a \$1,500 tax credit, and Ford is working with the Internal Revenue Service to get final approval for the Escape Hybrid, he said. It gets 33 miles a gallon in the city and 29 on the highway.

Maintenance is another area consumers should consider, automaker officials said. Mechanics are very familiar with diesels, but hybrids are more complex and not as well known, Mr. Reuter said.

But the Escape's hybrid-electric components don't require routine maintenance, and the SUV needs its oil changed only every 10,000 miles, one example of how customers save money and time in the shop, Mr. Olson said.

Other hybrid and diesel models are available in the United States, in light trucks as well as cars.

To see more of The Blade, or to subscribe to the newspaper, go to <http://www.toledoblade.com>.

---- INDEX REFERENCES ----

COMPANY: FORD MOTOR CO; DAIMLERCHRYSLER AG

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REGION: (USA (1US73); Americas (1AM92); Ohio (1OH35); North America (1NO39))

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OTHER INDEXING: (CENTER FOR AUTOMOTIVE RESEARCH; DAIMLERCHRYSLER AG; ESCAPE; ESCAPE HYBRID; FORD; FORD ESCAPE HYBRID; FORD MOTOR CO; INTERNAL REVENUE SERVICE; SUV; TOLEDO; TOLEDO JEEP ASSEMBLY PLANT) (Brett Smith; Bryan Olson; Drivers; J.D. Power; Jeep Liberty; Liberty; Libertys; McManus; Nov; Olson; Richard; Smith; Towing; Walter McManus)

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July 31, 2004

Section: BUSINESS

FORD HYBRIDS ROLL INTO DEALERSHIPS IN AUGUST
40 MPG-SUV ESCAPE, FIRST U.S. GAS-ELECTRIC MODEL, MAY BE SCARCE AT FIRST

Akweli Parker, Knight Ridder Newspapers

PHILADELPHIA

The Americans are coming. Finally.

Five years after hybrid gasoline-electric cars first arrived in significant numbers from Japan, Ford Motor Co. is about to become the first U.S. manufacturer to sell a version of the environmentally friendly, gas-saving vehicles. Its hybrid Escape SUV is to go on sale -- in limited quantities -- beginning in August. List price: \$26,970 for front-wheel drive, \$28,595 for four-wheel drive. Non-hybrid Escapes start at less than \$20,000.

Ford expects the front-wheel-drive hybrid to deliver 35 to 40 miles per gallon, compared with the mid-20s for a four-cylinder Escape.

"The demand is high, and it's growing," said Angela Coletti, Ford's spokeswoman for the vehicle line. She said the company expects to sell about 20,000 units a year, and will consider increasing output if the market demands it.

Coletti would not confirm reports that only 3,000 to 4,000 of the hybrid Escapes will be available for sale by the end of this year.

Philadelphia-area dealers say they don't expect any of the hybrid Escapes to arrive until January at the earliest -- and any that come in then are most likely already spoken for.

"We'll probably only get one or two" in early 2005, said Thomas Borah, a sales manager at Chapman Ford in Philadelphia. New York, California and the Washington, D.C., area will be getting the bulk of the earliest shipments, he said.

While Ford is the first American automaker to roll out a hybrid and has more models in the works, environmentalists say the company's efforts are too little, too late. They point to the poor fuel efficiency of some of Ford's biggest sellers, including the F-150 pickup (15 mpg in the city, 19 on the highway) and the Explorer SUV (15 city, 21 highway). And

the few thousand hybrid Escapes to be made available in the coming months will represent only a tiny fraction of Ford's output.

"It gives tokenism a bad name," said Jason Mark, clean-car campaigner for Global Exchange, an activist group based in San Francisco. "They're moving way too slowly.

"As an icon of American industry, we think Ford has a real responsibility to take a lead in breaking our addiction to oil."

Ford spokeswoman Jennifer Biggs rattled off several green undertakings from the company, including devoting half its scientific research budget to environmental initiatives.

But, she said, the company is ultimately limited by the law of supply and demand. "It's a matter of how quickly we can get the market to embrace the additional cost of these new technologies," Biggs said.

The Escape will be the fourth hybrid vehicle to become widely available in the United States, following Honda's two-seater Insight and Civic Hybrid and Toyota's popular Prius. Also joining the hybrid list later this year will be the Lexus RX 400h, an SUV from Toyota's luxury line, and a hybrid Honda Accord.

TOYOTA CONCEPT USED

For the Escape, Ford licensed the basic technology used in Toyota's Prius, which employs a computer to determine from moment to moment whether the car should run on its battery-powered electric motor, its small gasoline engine, or both. The batteries are recharged in several ways, including by the power of the gas engine and the energy generated during braking, so the car never has to be plugged in.

While buyers of hybrids generally point to lower emissions and environmental concerns as the reasons for their purchases, the increase in average gasoline prices to above \$2 a gallon this summer put a fresh spotlight on fuel efficiency.

"I think there's going to be demand in the future," said Mark Perleberg, lead auto expert for www.NADAguides.com, a division of NADA Appraisal Guides Inc., a car-pricing service.

No refineries have been built in the United States since 1979, he said. "China is the second-largest consumer of crude oil. Globally, things are changing" to make oil-derived products more needed, and therefore more expensive for Americans, Perleberg said.

Hybrids could help ease that pain by reducing U.S. demand for oil.

Still, J.D. Power & Associates expects hybrids to represent just 1 percent of the roughly 17 million cars and trucks sold in the United States by 2005, and 2 percent by 2008.

BUYERS USUALLY WEALTHY

One limiting factor: They appeal mostly to rich, educated people.

Last year, the average household income of a Prius buyer was \$105,000, and the median education level attained was a master's degree, said Walter **McManus**, executive director of forecasting for J.D. Power.

"Until we get beyond that group, we're not going to see huge sales," **McManus** said. Nonetheless, he said, Ford should have no problem selling its 20,000 or so hybrid Escapes next year.

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COMPANY: GLOBAL EXCHANGE SERVICES INC; FORD MOTOR CO; TOYOTA MOTOR CORP; HONDA MOTOR CO LTD

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REGION: (Pennsylvania (1PE71); Americas (1AM92); North America (1NO39); USA (1US73))

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OTHER INDEXING: (BUYERS; EXPLORER SUV; FORD MOTOR CO; GLOBAL EXCHANGE; HONDA; MODEL; NADA APPRAISAL GUIDES INC; POWER ASSOCIATES; PRIUS; SCARCE; SUV; TOYOTA; WEALTHY) (Angela Coletti; Biggs; Chapman Ford; Civic Hybrid; Coletti; Ford; FORD HYBRIDS ROLL; Globally; J.D. Power; Jason Mark; Jennifer Biggs; Mark Perleberg; McManus; Nonetheless; Perleberg; Still; Thomas Borah; Walter McManus)

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July 11, 2004

The Ford Escape Hybrid gives consumers a choice

STEVE EVERLY
RANDOLPH HEASTER

Can sport-utility vehicles, the thickly muscled Hulk Hogans of the automotive world, be successful in the marketplace as fuel-sipping, clean-burning machines?

We're about to find out.

The world's first SUV hybrids have been rolling off the production line at Ford Motor Co.'s plant in Claycomo and will make their debut in dealer showrooms later this summer.

Powered by a combination gas and electric engine, the Escape Hybrid boasts fuel efficiency that rivals that of most family sedans and slashes pollution emissions to a level that qualifies buyers for a "clean car" federal tax deduction.

It is a sharp departure for SUVs, which have become an icon for gas-guzzling vehicles. While some SUVs average 17.9 miles per gallon, the Escape Hybrid touts 36 mpg in combined city and highway driving.

Ford says the Escape Hybrid will offer a choice for those who are worried about the price of gasoline and concerned about the environment, but who want the versatility and capability of an SUV.

In short, a guilt-free SUV.

"They don't want to give them up, and we don't think they should have to," William Clay Ford Jr., chief executive officer of Ford, said in a recent statement.

Ford already is reaping kudos, including from some conservation groups, for being the first to offer an SUV hybrid, and the first of the Big Three automakers to offer a hybrid of any type.

But the sales potential of the Escape and other hybrids is unclear, particularly since hybrids carry premium prices. The Escape Hybrid costs about \$3,300 more than the gas-only V-6 model.

Last year, Japanese manufacturers, the first to test the market, sold about 43,000 hybrids. This year, total hybrid sales are estimated to be 100,000 units, and in four years they could approach 500,000, about 3 percent of the auto market.

Some believe the Escape Hybrid confronts a widely held belief in the auto industry that most SUV buyers don't place a premium on fuel economy. After all, despite recent spikes, gas remains relatively affordable on an inflation-adjusted basis.

"People are watching this closely," said Walter **McManus**, executive director of forecasting and analysis for J.D. Power and Associates.

The matter is of particular interest in the Kansas City area. If sales of the Escape Hybrid really catch fire, it will certainly boost the amount of work done at the Claycomo plant, which already employs about 5,500, and possibly lead to more local jobs.

Belton resident Jeanne Patterson is one person who definitely wants to buy an Escape Hybrid. She currently drives an Acura MDX, an SUV.

"I would buy one tomorrow if I found one on the showroom floor," said Patterson, who has a family of six. "The hybrids introduced so far have been little cars, and I've got a family that needs a little bit more room."

MPG vs. SUV

The hybrid technology is a marriage between the all-electric cars that the public shunned and the gasoline ignition vehicles we all know and love.

Ford has licensed Toyota's hybrid technology. The electric motor runs mainly at lower speeds, and then the gasoline engine takes over.

Unlike earlier electric cars that had to be plugged into an outlet to be recharged, the electric motor in a hybrid is recharged by the energy from braking the vehicle. It also means that the fuel efficiency comes mostly in city driving, not on the highway as with conventional cars. Among the hybrid's attributes that could surprise drivers is that an electric engine with its high torque can produce quicker starts from a dead stop.

Maintenance data on hybrid vehicles remain limited because of their short history, but some critics have suggested that their dual-technology engineering could make repairs complicated.

Before this year, the Japanese had the hybrid market to themselves, beginning with the 2000 Honda Insight. Of the hybrids sold last year, according to R.L. Polk & Co., the Honda Civic Hybrid had 50 percent of the market, the Toyota Prius followed with 47 percent, and the Honda Insight, a two-seater, had 3 percent.

The redesigned Prius, a five-passenger sedan, was slated to sell 36,000 vehicles this year. But Toyota has a backlog of 22,000 U.S. orders and is hoping to get more cars from Japan, said Cindy Knight, a Toyota spokeswoman.

Ford becomes the first Big Three automaker to offer a hybrid to the public. General Motors Corp. this year is offering to commercial fleets a small number of "mild hybrid" pickup trucks that allow the gasoline engine to shut off at stops. GM plans to eventually offer hybrid vehicles to the public. DaimlerChrysler, meanwhile, has plans to introduce a diesel-electric Dodge Ram pickup, but initially only for commercial fleets.

The Japanese decided to introduce hybrid technology in small fuel-efficient cars before aiming at the SUV market.

But Ford decided to go after the SUV market, where it has traditionally been dominant. Ford said it chose the Escape,

in part, because the small SUVs are increasingly popular, especially among consumers trading up from cars. Through the first half of 2004, Ford has sold 98,532 Escapes with gasoline engines, a 26 percent increase from the same period last year.

Some see Ford's move as a way to partially deflect criticism that the company's vehicles have the worst average fuel efficiency among major automakers, according to the Environmental Protection Agency.

Ford's decision to launch a hybrid in the SUV category is significant because the company has been criticized for producing so many SUVs that are seen as environmentally unfriendly, said Brett Smith, senior analyst with the Center for Automotive Research in Ann Arbor, Mich.

"The fuel savings associated with a low-mileage vehicle like the SUV is far more helpful to reducing emissions and conserving gasoline than a high-mileage vehicle," Smith said.

The Escape Hybrid gets 36 mpg in combined city and highway driving, compared with 20 mpg for an Escape with a V-6 engine.

But some environmentalists suggest that Ford is more interested in public relations than the public good. Rainforest Action Network and Global Exchange in California contend Ford's projected production of 20,000 hybrids in 2005, a fraction of the 700,000 SUVs that Ford sells annually, won't make much difference.

"Ford's release of a few thousand hybrid SUVs gives tokenism a bad name," said Jason Mark, head of the clean-car campaign at Global Exchange.

Ford spokeswoman Carolyn Brown said William Ford is a vocal advocate of the environment, the company continues to meet with environmental groups, and the Escape Hybrid is a positive first step.

At the very least, development of the Escape Hybrid positions Ford to take advantage if hybrid vehicles catch the public's imagination. If they don't, **McManus** of J.D. Power said Ford and automakers are learning valuable lessons.

"Their engineers are going to become very smart, and the learning will be applied to other power trains, not just hybrids," he said.

Early adapters

The company said more than 50,000 people have visited its Escape Hybrid Web site and signed up for additional details, as well as given Ford permission to contact them.

Analysts predict that Ford will have no problem selling the initial 25,000 units expected to be produced through 2005, in part because there's always a group of "early adapters" hungry for the latest innovations.

Based on Ford's Web site, 68 percent of the Escape Hybrid inquirers are male, 42 percent are age 30-45, and 35 percent have a household income between \$75,000 and \$125,000. That's above the average income of those who purchase the Escape with a gasoline engine.

Such influential customers "tend to be ahead of the curve in terms of adopting technology and being more environmentally aware," said Corey Holter, Ford's marketing manager for the Escape. "In that sense, they become advocates for us. These folks are the 'go to' people who are sought out by others in the workplace. They tend to mirror the general public, except they have a higher level of education and income."

Most of the initial vehicles off the line will go to customers in the Northeast and on the West Coast, markets where gasoline prices tend to be higher and smog problems worse. Area Ford dealers may not get their first Escape Hybrids until next year.

Patterson, of Belton, says she believes driving in the city 50 miles each day would eventually cover the cost difference of a hybrid through fuel cost savings. But she said her family has other reasons for wanting the Escape Hybrid.

"We've always been 'early adapters' kind of people, whether it's new computers or any kind of new technology," she said. "Also, I want to support Ford because they're bringing these hybrids out of the Claycomo plant. That's something we should be very proud of." To be a long-term success, Ford probably will have to convince enough consumers that buying an Escape Hybrid makes economic sense. Therein lies the challenge.

"Even though gas prices have edged downward, nonetheless, the present price environment is going to provide a good test as to what the consumer appetite is for this vehicle," said George Pipas, a sales analyst for Ford.

At current gas prices, Escape Hybrid owners would have to drive about 75,000 miles to offset the extra \$3,300 the vehicle will cost compared with an Escape with a V-6 gasoline engine.

The order backlog for the Toyota Prius suggests recent spikes in gas prices can boost sales of hybrids, although the backlog began before the price increases. But even Toyota, which offers one of the most fuel-efficient fleets of vehicles, isn't convinced that fuel economy is that much of a priority.

"In the U.S., fuel economy is pretty low," said Knight, the Toyota spokeswoman.

That may be particularly true for SUV buyers. For owners of medium and large SUVs, saving fuel is less economically important because gas costs are a smaller part of their incomes than for most other motorists.

For example, the household income for buyers of the Chevrolet Suburban is \$136,564, and \$245,661 for owners of the Land Rover Range Rover, according to J.D. Power.

"People would rather have that money now and buy a plasma TV," said Smith, of the Center of Automotive Research. "With their cars, people are willing to pay more for a nice stereo, fancy tires and all the other toys. But they're not going to pay for fuel economy."

To reach Steve Everly, call (816) 234-4455 or send e-mail to severly@kcstar.com.

To reach Randolph Heaster, call (816) 234-4746 or send e-mail to rheaster@kcstar.com.

First glance

The first SUV hybrids are being produced at Ford's Claycomo plant.

The hybrids will appear in dealer showrooms later this summer.

--- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; FORD MOTOR CO; DAIMLERCHRYSLER AG

NEWS SUBJECT: (Major Corporations (1MA93); Economics & Trade (1EC26); Economic Indicators (1EC19))

INDUSTRY: (Gasoline (1GA40); Oil (1OI41); Upstream Gas (1UP12); Gas (1GA99); Environmental (1EN24); Automotive Fuels (1AU95); Electric Vehicles (1EL48); Manufacturing (1MA74); Automotive Technology (1AU48); Transportation (1TR48); Oil & Gas Prices (1OI34); Gas Market (1GA72); Public Utilities Marketing (1PU16); Automotive Environmental Initiatives (1AU68); Land Transportation (1LA43); Environmental Solutions (1EN90); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Utilities Environmental Issues (1UT10); Passenger Transportation (1PA35); Science (1SC89); Science & Engineering (1SC33); Utilities (1UT12); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79))

REGION: (North America (1NO39); Americas (1AM92); USA (1US73))

Language: EN

OTHER INDEXING: (AUTOMOTIVE RESEARCH; DAIMLERCHRYSLER; ENVIRONMENTAL PROTECTION AGENCY; ESCAPE; ESCAPE HYBRID; ESCAPE HYBRID WEB; FORD; FORD ESCAPE HYBRID; FORD MOTOR CO; GENERAL MOTORS CORP; GM; HONDA CIVIC HYBRID; HONDA INSIGHT; LAND ROVER RANGE ROVER; MPG; SUV; TV) (Belton; Brett Smith; Carolyn Brown; Cindy Knight; Co.; Corey Holter; Dodge Ram; Ford; George Pipas; Hulk Hogans; J.D. Power; Jason Mark; Jeanne Patterson; Knight; McManus; Patterson; R.L. Polk; Rainforest Action Network; Randolph Heaster; Smith; Steve; Toyota; Walter McManus; William Ford)

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June 11, 2004

Section: FRONT

FUEL COSTS PUTTING MORE HYBRIDS ON ROAD WITH GAS NEAR \$2 A GALLON, DEALERS CAN'T
KEEP MILEAGE MACHINES ON THEIR LOTS

Tom holden THE VIRGINIAN-PILOT

VIRGINIA BEACH

The hot little number in Fred and Mary Steitz's driveway is their "patriotic" response to a nation paying \$38 a barrel for oil and almost \$2 a gallon for regular gas.

Gleaming red. Sleek as a bullet. Loaded with gizmos. It's a Toyota Prius, a car powered by a gasoline engine and an electric motor that promises a jaw-dropping 55 miles per gallon.

"I get a little hyper when I see people driving Hummers," said Fred Steitz, referring to the supersized gas hog that delivers a jaw-dropping mileage of a different sort: barely 11 miles per gallon.

"It's everyone's patriotic duty to get rid of their big SUV," he said. "Whatever I could do to get away from that gas pump would be good."

With fuel prices at near-record highs and worries about an increasingly volatile Middle East growing stronger, Americans are turning to hybrids as never before, even as a debate simmers over whether the mileage is as good as promised.

Today, consumers have only three hybrid models to choose from: Toyota's and two cars from Honda. But within 18 months, models from SUVs to pickup trucks will come with hybrid options and a better chance to skip the weekly visit to the gas station.

"Sales have taken off like crazy," said John J. Muskovac, general manger of Checkered Flag Toyota, where all of the Virginia Beach dealer's allotment of Prius models are spoken for through September.

The store on Virginia Beach Boulevard normally receives 10 to 12 of the hybrid sedans each month, but Muskovac said he could sell "60 to 70 a month. Easy."

In some other markets, demand has been so strong that dealers have begun charging hefty markups on the Prius - \$5,000 or more on top of its manufacturer's list price, which starts at just under \$21,000.

Mary Steitz loved hers the minute she saw it, but it was not until she got inside and pushed the "start" button - the car does not come with keys - that she had to have it.

"It has all the toys I want," the Lake Trant resident said, showing off the voice-activated controls, a global positioning system, and a gear selector that trades the traditional handle mounted to the steering column for an electronic switch peeking out of the dashboard.

As its name implies, a hybrid combines two sources of power - in the case of the Prius, a four-cylinder gasoline engine and a separate, electric motor connected to a generator and a battery, which is about the size of a medium suitcase.

They work in concert. The electric motor gets the car moving, and as the driver speeds up, the gas engine kicks on to deliver more power. Out on the open highway, the electric is used hardly at all.

All of this takes place with the driver hardly aware of the transition from gas to electric, and it's all accomplished without power cords; hybrids make their own electricity, even using the brakes as a source of power.

As cars move, they carry a kind of stored energy, which normally is lost as heat when the brakes are applied. To keep batteries charged, hybrids' brakes capture some of that kinetic energy and direct it to the battery pack.

Other tricks to achieve impressive mileage range from a liberal use of lighter composite materials to super-streamlined designs to help them slip through the air. At a stop, the gas engine shuts off.

U.S. sales of hybrid vehicles will likely exceed 100,000 units in 2004, up from 47,000 last year, according to research firm J.D. Power and Associates. That's barely a blip in a market in which more than 16 million vehicles are projected to be sold this year.

But hybrid sales are expected to accelerate to more than 440,000 units annually by 2008. General Motors, Ford and DaimlerChrysler are among vehicle makers planning soon to join in with hybrid variants of their popular-selling models.

One milestone will come late this summer, when Ford plans to begin selling a hybrid version of its small Escape SUV. It would be the nation's first hybrid SUV.

"It's projected to get 38 miles per gallon, which is substantial," said Walter S. **McManus**, executive director of forecasting and analysis at J.D. Power, based in Westlake Village, Calif. "We think it could sell close to 2,000 a month," he said.

And this fall, Honda plans to introduce a hybrid version of the Accord, one of America's top-selling vehicles. It already offers a hybrid in its Civic line that promises 45 to 51 miles per gallon. And it sells a limited-production Insight, a three-cylinder car that the manufacturer says can deliver about 65 miles per gallon on the highway, with a manual transmission.

Whether hybrids live up to their sales expectations may depend on fuel prices staying high, if dealers' conversations with buyers so far are a guide. Muskovic said "instability of the world's oil situation - that is definitely in the back of people's minds. I've heard a lot of people talk about that."

Sales may also be affected by recent debate about whether the cars actually achieve the mileage claimed by the manufacturers.

Tests by engineers at Consumers Union, which publishes Consumer Reports magazine, found the Prius got 44 miles per gallon in combined city-highway driving, less than the advertised 55 but still superior to any non hybrid four-cylinder sedan.

"Nothing even comes close," said Gabriel Shenhar, senior auto test engineer for the Yonkers, N.Y.-based organization.

The difference in the test results, he said, lies in the way they were conducted. Tests by the U.S. Environmental Protection Agency guide manufacturers' claims, and those tests are partly performed on a machine that allows the car's wheels to move while the vehicle stays put.

Consumers Union testers drive the vehicle in a city and then on the freeway, measuring its performance over a 150-mile trip. Consumers Union scientists even tap into the fuel lines of test cars and measure exactly how much fuel is being consumed, Shenhar said.

Even with the variance, Consumers Union rates the Prius a "Best Buy."

"Forty-four miles per gallon is excellent," he said. "It's the best we've gotten for a five-passenger vehicle."

Local dealers say that hybrids would have appeal even if they weren't fuel misers. They say that some buyers like their quietness and nifty gadgetry, while others have embraced the idea that hybrids pollute less. Toyota claims that the Prius generates 90 percent fewer smog-causing emissions than any other new non-hybrid. Ford claims a 97 percent reduction for its Escape.

Lisa and Christopher Smith, of Virginia Beach's Laurel Cove, like their Prius "for a couple reasons, and it has nothing to do with gas prices," Lisa Smith said. "I am a techno whiz. I love gadgets, and I love new things."

That said, the Smiths' experience has been that the Prius lives up to its claims. "We keep track of the miles, and it gets about 50 miles per gallon every time we drive it," Lisa Smith said.

The Smiths have enjoyed one other advantage of their new car: In Virginia, drivers of hybrids have unlimited access to HOV lanes, even if the driver is alone. That has helped cut time from Christopher Smith's commute to a job in downtown Norfolk.

Hybrid buyers can also get tax breaks, although the most significant of those may be short-lived. In 2004, the federal government allows a deduction of up to \$1,500 for first-time buyers of the vehicles. That break is down from \$2,000 last year and is scheduled to be phased out by 2006.

Virginia allows an added credit of up to \$150, said Diane Deloach, a spokeswoman for the Virginia Department of Taxation.

J.D. Power's **McManus** said hybrids have had "issues with performance and passing speed." But he said engineers have largely addressed those problems, "and the preliminary reports I've seen on consumer reaction have been very positive."

The Smiths count themselves among those who are satisfied.

"We have three cars, and the Prius is always at the end of the driveway because it's always being used," Lisa Smith said.

"From now on, all of our cars will be hybrids because they make sense to us. It seems like they have perfected the technology."

Reach Tom Holden at 446-2331 or

tom.holden.pilotonline.com.

how THEY WORK

A hybrid, like the one owned by the Steitzes, left, combines two sources of power - in the case of the Prius, a four-cylinder gasoline engine and an electric motor connected to a generator and a battery, which is about the size of a medium suitcase. Hybrids do not need to be plugged in, but generally capture energy from braking and use it to charge the batteries.

Some other hybrids scheduled for the U.S. market, by model year:

Honda Accord, 2005

Ford Escape, 2005

Toyota Highlander, 2005

Lexus RX 400, 2005

Dodge Ram pickup, 2005

Saturn VUE, 2006

Chevrolet Malibu, 2007

Chevrolet Tahoe, 2007

GMC Yukon, 2007

Source: U.S. Department of Energy

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Electric Vehicles (1EL48); Automotive Fuels (1AU95); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Automobiles (1AU45); Automotive Environmental Initiatives (1AU68); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79))

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June 3, 2004

Section: RIDE

DRIVING THE IRONY OF HIGHER GAS PRICES: SUV SALES UP

Sarah A. Webster, Detroit Free Press

Gas prices may be high and rising, but they aren't painful enough to push us out of our beloved pickups, SUVs or vans.

Although rising gas prices are aggravating consumers -- causing some people to reconsider the vehicles they drive -- experts who have analyzed buying trends for decades are predicting that sales of light trucks will continue rising this month.

Research firm J.D. Power and Associates is projecting that May sales will be 11 percent higher than the same month a year ago for pickups, 2 percent for SUVs and 7 percent for vans. That's with the help of substantial incentives, of course.

Compact and midsize cars, despite being the most fuel-efficient, are expected to be up 3 percent and 2 percent, respectively. Full-size cars are projected to be down 5 percent.

"We're expecting all truck sales to be up," said Walter **McManus**, J.D. Power's director of automotive forecasting.

If true, that's good news for Detroit's automakers, who specialize in SUVs, pickups and vans. General Motors, Ford and Chrysler make most of their automotive profits on the big vehicles and are just beginning to get their diesel-powered and hybrid vehicles off the ground.

With regular gas hitting an average of \$2.05 a gallon nationwide last week -- 56 cents a gallon higher than last year -- it might be logical to think consumers would dump less-efficient trucks for thrifty cars with tiny engines, especially hybrids.

But **McManus** said he thinks gas prices would have to go a lot higher -- perhaps as high as \$4 a gallon -- before customers really start shifting to more fuel-efficient vehicles.

Automakers and analysts challenge the reports, though some surveys seem to support a shift. One in six customers who plan to buy a new vehicle said they have already changed their mind about what vehicle they plan to purchase as a result of rising gas prices, according to a survey released this month from Harris Interactive and Kelley Blue Book.

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---- INDEX REFERENCES ---

COMPANY: HARRIS INTERACTIVE INC; GENERAL MOTORS CORP; DAIMLERCHRYSLER AG

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May 29, 2004

Section: Business

HOW GAS PRICES ARE AFFECTING CAR SALES
GUZZLERS POPULAR, BUT THERE ARE LIMITS

MATT NAUMAN, Mercury News

Car buyers seem to be at least thinking about gas prices and fuel economy as they decide what vehicle to buy next. But a direct impact on vehicle choice from \$2-plus-a-gallon gas hasn't happened yet.

Gas prices have topped \$2 a gallon in the Bay Area for more than three months -- since mid-February, says AAA of Northern California -- and reached new new highs again this week.

But, Automotive News says, sales of trucks, those low-mileage poster boys, were up 3.6 percent nationwide in April compared with the same month in 2003, with sales of vans and minivans up 11.2 percent and sales of SUVs up 4.1 percent.

And J.D. Power and Associates forecasts that May sales of pickups will increase 11 percent, sales of SUVs will grow 2 percent and sales of vans will rise 7 percent.

"The evidence we have is not that people don't care about fuel prices," said Walter **McManus**, executive director of automotive forecasting in Power's Troy, Mich., office. "It's that, so far, the spike in prices is seen by consumers as temporary."

Prices will have to get higher -- say \$4 a gallon -- and stay there longer, **McManus** said, for true shifts in the types of vehicles that people buy.

"The critical thing is not today's fuel price, but what do I think it will be over the time I own this vehicle," he said.

Still, anecdotally, some shifts are taking place.

At Normandin Chrysler-Jeep in San Jose, car and truck buyers are talking about fuel prices.

"I drove home last night in a Suburban somebody traded in on a minivan," said Mark Normandin, the dealership's general manager. The fact that the van got much better fuel mileage than the large SUV was a factor in the buyer's

decision, he said.

People who need SUVs are still buying them, Normandin said, "but they're just more conscious of what they're buying." They'll take a midsize vs. a full-size SUV, for instance, if they don't need all the towing capacity of the bigger, less fuel-efficient vehicle, he said.

A study released Friday by Autobytel, an Internet car-buying service, showed a drastic decrease in consumer interest in gas-thirsty SUVs, those that average less than 20 mpg.

Purchase requests for SUVs are down 13 percent and those for large SUVs are down 20 percent, after years of steady growth, said Brian Chee, Autobytel's Web site editor.

Autobytel's report was based on more than 1 million purchase requests that the company forwarded to dealers from January to April of this year.

Requests for the Hummer H2 have been down every month since January, Chee said. Requests for the Chevy Tahoe SUV are down 26 percent, while requests for the Ford Expedition are down 22 percent.

Requests for pickups are down 21 percent.

And, Autobytel notes, requests for cars with 25 mpg or more are up 33 percent since January.

That growth is led by the Toyota's Prius gas-electric hybrid that gets 59 mpg in city driving, with requests up 73 percent. Other small cars are up, too, with requests up for the Honda Civic (37 percent) and the Mini Cooper (33 percent).

"What it is showing is a shift in priorities," Chee said. "When you look at the LCD on the gas pump and it says \$55, it changes your priorities."

---- INDEX REFERENCES ----

COMPANY: AUTOBYTEL INC; BAYERISCHE MOTOREN WERKE AG; RENCO GROUP INC; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG

INDUSTRY: (Transportation (1TR48); Land Transportation (1LA43); Automobiles (1AU45); Automotive Retail & Distribution (1AU77); Automotive Retail (1AU31); Automotive (1AU29); Passenger Transportation (1PA35))

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May 28, 2004

A new crop of diesel cars Automakers hope to tap dismay over gasoline prices

JOSEPH B. WHITE

European automakers are gearing up their biggest efforts in years to convince American consumers that modern diesel engines are an attractive antidote to \$2-a-gallon gasoline.

Executives at Volkswagen AG and DaimlerChrysler AG's Mercedes-Benz and Chrysler Group units are hoping that when American consumers experience modern European diesels they will forget the less-attractive generation of diesels sold during the early 1980s, the last time gasoline prices reached inflation-adjusted levels of \$2 a gallon or more.

In the process, the European brands also aim to counter some of the marketing momentum that Japanese rivals Toyota Motor Corp. and Honda Motor Co. are gaining from growing sales of their efficient and cleaner-running gas-electric hybrid vehicles.

Volkswagen, the world's leading producer of diesels for light passenger vehicles, last month began selling diesel versions of its midsize Passat sedan and wagon in the United States. That marked a significant expansion of its U.S. diesel lineup. VW already sells diesel-powered Jetta, Golf and Beetle models, but the Passat is VW's mainstream family car, and a competitor to the Honda Accord, Toyota Camry, Nissan Altima and other models.

Separately, DaimlerChrysler's Mercedes division last month began selling a diesel version of its E Class luxury sedan. And later this year, DaimlerChrysler's Chrysler Group plans to offer diesel-powered Jeep Liberty models.

The two European manufacturers, who have invested billions in diesel technology to serve booming demand in Western Europe, are taking a chance that Americans fuming about rising gasoline prices will give diesel a second chance. The diesel engines offered in some passenger cars in the United States during the early 1980s were more fuel-efficient than comparable gasoline engines, but they tended to be dirty, noisy and, in some cases, unreliable. When gas prices eased in the 1990s, U.S. demand for diesel cars all but dried up.

"We've got to bust these myths in America about diesel," says Len Hunt, head of the Volkswagen brand in North America.

VW hopes to boost sales of diesel Passats to between 10 percent and 15 percent of total U.S. Passat sales, or as many as 12,000 vehicles a year, based on last year's U.S. Passat sales. The arrival of the new Passat makes that car the only midsize model sold in America with a diesel engine.

Volkswagen is selling the diesel Passat for \$23,060 and next month will roll out new advertising to promote the car's highway mileage of 38 miles per gallon and highway range of 623 miles between fill-ups. By comparison, a similar-model Passat that is gasoline-fueled is rated at 22 mpg in the city, 31 mpg on the highway, and starts as low as \$22,355.

European light diesel engines face considerable hurdles to meet new U.S. clean-air standards that take effect in 2007. On top of that, diesels currently can't be sold in California and four Northeastern states because they don't meet their clean-air standards. The Japanese hybrid gas-electric cars, by contrast, meet clean-air standards in all 50 states and don't emit the kind of sooty particles that have been identified by the Environmental Protection Agency as potential cancer-causing agents.

Another problem for Euro-diesel: Current exhaust-cleaning technology can't handle diesel fuel in the United States because of its high sulfur content.

The relatively low-priced diesel Passat is part of a broader effort to revive the VW brand's U.S. image after a year of sharply sliding sales and red ink. The renewed emphasis on affordability comes after a period in which VW sought to portray itself as a near-luxury brand moving to compete with the likes of BMW.

That effort produced a 10.5 percent slump in sales last year and a 25 percent drop during the first three months of 2004. Now, Hunt is shifting gears to focus on value. He's also focusing on trying to fix nagging quality problems that have undermined the brand's U.S. reputation.

The new Mercedes E320 CDI diesel, meanwhile, is rated at 27 mpg in the city, and 37 mpg on the highway, compared with 19 and 27 for the gasoline-powered E320. The first official sales report for that model won't come in until early June, but Mercedes-Benz USA spokeswoman Michelle Murad says "dealers are selling everything they can get their hands on." Mercedes has committed to bringing only 3,000 diesel E Classes to the United States this year.

Chrysler plans to build an estimated 5,000 Liberty diesels a year, a tiny slice of the Liberty's annual sales of about 163,000 vehicles. It estimates that the 2005 diesel Liberty will get 25 percent better mileage than a comparable gasoline model.

Total diesel light-vehicle sales in the United States have been climbing steadily since 1998. They now account for about 3.6 percent of total light-vehicle sales through the end of April this year, double the share in 1998, says Walter **McManus** of J.D. Power and Associates, a California market-research firm.

McManus estimates that car makers sold 567,998 diesel-powered light vehicles last year, compared with just 47,525 gas-electric hybrid vehicles, and he says the diesel figures could grow as more models arrive in the United States. Diesel's share of the U.S. light-vehicle market could be as high as 15 percent if more models were available, he says. The bulk of diesel-powered light vehicles sold in the United States are pickup trucks.

Photos (2, color, uncaptioned)

National average prices

Graphic (color)

The Kansas City Star; Source: Energy Information Administration

---- INDEX REFERENCES ---

COMPANY: BAYERISCHE MOTOREN WERKE AG; TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC; DAIMLERCHRYSLER AG; HONDA MOTOR CO LTD; VOLKSWAGEN AG; CHRYSLER GROUP

NEWS SUBJECT: (Prices (1PR65); Major Corporations (1MA93); Economics & Trade (1EC26); Economic Indicators (1EC19))

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Automotive Fuels (1AU95); Downstream Oil (1DO72); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Oil & Gas Prices (1OI34); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29); Diesel (1DI26))

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May 26, 2004

Report: Escalating Gasoline Prices Don't Sway Motorists from SUVs

Sarah A. Webster

May 26--Gas prices might be high and rising fast, but they aren't painful enough to push people out of their beloved pickups, SUVs and vans.

By Sarah A. Webster, Detroit Free Press

May 26--Gas prices might be high and rising fast, but they aren't painful enough to push people out of their beloved pickups, SUVs and vans.

Despite the fact that rising gas prices are aggravating consumers -- causing some people to reconsider the vehicles they drive -- experts who have analyzed automotive buying trends for decades are predicting that sales of light trucks will continue rising this month.

Research firm J.D. Power and Associates is projecting that May sales will be 11 percent higher than they were during the same month a year ago for pickups, 2 percent for SUVs, and 7 percent for vans. That's with the help of massive incentives, of course.

Compact and midsize cars, despite being the most fuel-efficient, are expected to be up 3 percent and 2 percent, respectively. Full-sized cars, meanwhile, are projected to be down 5 percent.

"We're expecting all truck sales to be up," said Walter **McManus**, J.D. Power's executive director of automotive forecasting.

If true, that's good news for Detroit's automakers, who specialize in SUVs, pickups and vans. General Motors Corp., Ford Motor Co. and DaimlerChrysler AG's Chrysler Group make most of their automotive profits on the big vehicles and are just beginning to get their diesel-powered and hybrid vehicles off the ground.

With regular gas hitting an average of \$2.05 a gallon nationwide on Tuesday -- 56 cents a gallon higher than last year -- it might be logical to think consumers would dump less-efficient trucks for thrifty cars with smaller engines, especially hybrids.

But **McManus** said he believes gas prices would have to go a lot higher -- perhaps as high as \$4 a gallon -- before customers really start shifting to more fuel-efficient vehicles.

Several news reports on TV, in magazines and newspapers have already declared a trend toward more fuel-efficient vehicles under way.

Automakers and analysts challenge the reports, though some surveys seem to support a shift. One in six customers who plan to buy a new vehicle said they have already changed their mind about what vehicle they plan to purchase as a result of rising gas prices, according to a survey released this month from Harris Interactive and Kelley Blue Book.

What's more, there are waiting lists for the Toyota Prius and Honda Civic hybrids. Hybrid sales, with help from upcoming entries like the Ford Escape SUV, are expected to more than double to 100,000 vehicles this year. Hybrids combine a gas engine with an electric motor.

There are also plenty of anecdotes that suggest that people are trading down and asking salespeople about more fuel-efficient vehicles.

When his gas tab rose to \$50 a week, Michael Smith of Grosse Pointe took action. As soon the lease was up on his Ford Explorer last month, he passed up another SUV even though it's ideal for his 6-foot-5 frame, wife and three kids. Instead, he bought a Chrysler 300C sedan, a move that lowered his car payment and doubled his mileage.

"I'm saving big-time now," said Smith, vice president of sales and marketing for a manufacturing consulting firm in Birmingham.

But trucks are still outpacing cars, **McManus** said.

"What we see so far is little or no impact," **McManus** said.

Another analyst, Ronald Tadross of Banc of America Securities, is expecting all auto sales to increase just 1 percent in May compared to the same month a year ago, and he expects truck sales to make up even more of the mix because U.S. automakers have been engaged in an intense incentive war to move a glut of trucks out of their inventory.

"This is despite the increase in gas prices," he concluded.

Of course, the experts could be proved wrong next week when automakers report their new-vehicle sales for May.

But don't bet on it.

McManus' and Tadross' views echo those of several automakers, who have access to daily sales reports.

"We look at it every which way we possibly can look at it, and quite simply, we are not seeing any impact," Paul Ballew, GM's executive director of GM's global market and industry analysis, said in early May. "We continue to see strong sales of large trucks."

Art Spinella, president of CNW Marketing Research Inc. said the biggest impact that gas prices seem to be having at this point is that they have encouraged consumers to take a wait-and-see approach to buying a vehicle.

That might have contributed to sluggish U.S. sales of vehicles in April. For the first four months of the year, truck sales were up 8 percent and car sales were down 2.3 percent.

While many in the media have been declaring truck troubles for Detroit's automakers as a result of gas prices, automotive experts scoff at the notion that trucks are losing their popularity. While they acknowledged there may be some movement to smaller SUVs, they noted that's hardly an about-face, and it could be caused by other factors, such as anxiety about Iraq or the economy.

"It's an overreaction, and I would say there's some wishful thinking," **McManus** said of these reports. George Pipas, Ford's U.S. sales analysis manager, added: "I think people want to see it, but as of yet, we've seen the contrary."

There may be another reason automakers aren't biting their nails, too.

Gas prices are rising at a time when the economy is improving and household incomes have grown faster than gas prices. Automakers also know that their customers are better off financially than most of the population. So even if customers are griping nationwide about pain at the pump, it may be more of a pinch for people who can afford a new car or truck.

In 2001, the last year for which there is federal data, household income averaged \$42,228. But the average income of a new vehicle buyer that year was \$74,300, according to J.D. Power.

Some media reports have pointed to the declining popularity of the Hummer, which gets a scant 11 miles per gallon, as evidence that vehicles that get poor mileage are out. But Spinella noted that a 50-cent increase in the price of gasoline shouldn't really impact people who can afford a \$50,000-plus H2. According to his data, the average household income of a Hummer buyer is \$473,520.

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---- INDEX REFERENCES ----

COMPANY: GENERAL MOTORS CORP; FORD MOTOR CO; RENCO GROUP INC; DAIMLERCHRYSLER AG; CHRYSLER GROUP

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Automotive Fuels (1AU95); Downstream Oil (1DO72); Automotive Models (1AU61); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Oil & Gas Prices (1OI34); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29); Vans (1VA41))

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Ford; Full; George Pipas; J.D. Power; McManus; Michael Smith; Paul Ballew; Research; Ronald Tadross; Sarah A. Webster; Smith; Spinella; Sway Motorists; Tadross; Walter McManus) (Automobiles; Highways)

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May 18, 2004

Section: Business

Car buyers seem unfazed by spike in gas price -- for the time being

May 18, 2004

With U.S. gas prices setting records above \$2 a gallon, automakers, economists and pollsters are closely watching consumers' reactions. After all, when gas prices peaked in 1981, the U.S. new car and truck market changed radically as Americans switched from domestic brands to small, fuel-efficient imports.

So far, Detroit's automakers appear to have little cause for concern from the latest price spike. In April, sales of light trucks, minivans and SUVs actually ticked up 3 percent, while U.S. car sales dipped. In the used-car market, SUVs remain in high demand.

The Detroit News

"All the discussion about fuel prices is nothing more than hype at this point," says Automotive Leasing Guide President Raj Sundaram. "There won't be a big impact from fuel prices because they're not that high by historical standards."

To reach the equivalent of \$1.90-gas prices in 1981, prices would have to surge to at least twice their current levels, said Walter **McManus**, executive director of global forecasting at J.D. Power and Associates. Today's vehicles are far more fuel-efficient than previous generations, and U.S. incomes have grown substantially.

"Put those two together, and prices would have to be \$4, \$5, even \$6 a gallon before people changed their behavior significantly, as they did in response to the oil crisis in the 1980s," **McManus** says.

What's more, Americans are not merely infatuated but in love with big vehicles. Surveys show that since 1997, size has become an increasingly important consideration for car buyers, while fuel efficiency and "environmental friendliness" matter less.

Still, there are growing indications that some consumers feel the pinch. Sales of hybrids, highly-fuel efficient cars powered by both gas and electric motors, are growing rapidly. Toyota Motor Corp.'s U.S. sales arm has requested a bigger allotment of Prius hybrids from Japan to meet demand.

Demand for General Motors Corp.'s Hummer brand is down 25 percent this year. In J.D. Power's initial quality survey, the brand placed last for the second year in a row, with poor fuel economy a top complaint of new owners.

There are other worries for U.S. automakers. Prices of gas guzzlers are slipping. Large vehicle prices fell 1.5 percent in April, from March, while prices for small and mid-sized cars rose, according to Edmunds.com.

U.S. automakers are serious now about building more competitive small and mid-sized cars, such as Ford Motor Co.'s new Five Hundred sedan and the all-new Chevrolet Malibu.

But they still generate their profits from selling larger pickup trucks and SUVs. So they may not be able to withstand a major shift in buying habits as well as Asian automakers, which still manage to earn money across their entire U.S. line.

As the industry heads into summer, motorists will pay closer attention to gas prices -- which are expected to rise even higher, according to economists. But pump prices represent only one of the factors influencing vehicle purchases. Right now, high gas prices reflect high crude prices, high refinery costs, and strong demand. U.S. oil imports are rising and U.S. refineries are operating at 96 percent of capacity.

But going forward, if high gas prices are combined with job uncertainty, higher interest rates, more bad news from the war front, a disruption of Mideast oil supplies, and doubts about the country's direction, the impact will hit home.

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Section: C

Hybrids in gear

As prices rise steadily at the pump, automakers plan to make and sell more electric-gas combos

By Teresa McUsic, Special to the Star-Telegram

Jason Swartzendruber, a junior studying mechanical engineering at the University of Texas at Arlington, looks under the hood of a Toyota Prius hybrid on ...

Hybrid cars are growing up.

For drivers who are concerned about the rising cost of gasoline -- up 24 cents per gallon nationwide in the past year -- a car that combines electric and gas-powered engines may be worth checking into.

"The single most important thing you can do to improve your fuel efficiency is the next time you go shopping for a car, look for a vehicle with increased fuel economy -- an improvement that will buffer you from the volatility of the fuel markets," said James Kliesch, research associate at the American Council for an Energy Efficient Economy.

Hybrids, which boost fuel efficiency on average between 40 percent and 50 percent, are one alternative, Kliesch said. The vehicles combine a gas engine with a battery-powered motor that kicks in at low speeds. The engine recharges the battery.

Although the hybrid market emerged slowly, all of the major car manufacturers are about to enter the race.

As many as 28 hybrid vehicles -- from tiny two-seaters to full-size pickups, family-style sedans and SUVs -- are coming out over the next four years, according to J.D. Power and Associates.

Among the new hybrids are cars Americans already know, including the Honda Accord, Toyota Camry, Ford Escape, Saturn VUE, Lexus RX 400h, BMW 3 Series, Chevrolet Silverado and GMC Sierra trucks.

"If the average price drivers are paying for gasoline continues to steadily climb, then the clean diesel engines and hybrid electric powertrains that automakers are bringing to the market could be much more successful than skeptics, and even some proponents, expect," Walter **McManus**, executive director of global forecasting for Power, wrote in a recent survey of consumer hybrid awareness.

Just two manufacturers -- Honda and Toyota -- made up the entire hybrid market last year, generating only 47,000

vehicle sales. But Power predicts that more than 100,000 hybrids will be sold this year, and more manufacturers will get in the game.

"The hot segments are going to be the SUVs and the trucks," **McManus** said. "Lexus has started subtle advertising about its incredible performance with two-page ads in The Wall Street Journal. "

Meanwhile, this year a second generation of Toyota's Prius was the first hybrid named Motor Trend's Car of the Year. Even the editors who chose it seemed a little baffled.

"How could Motor Trend -- the bible of tire-smoking performance -- hail a 110-horsepower econo-car?" the magazine's editors wrote on their Web site. "The all-new 2004 Prius, however, is an altogether more compelling car. Not only is it the first hybrid that an enthusiast can truly enjoy, it provides a tantalizing preview of a future where extreme fuel-efficiency, ultra-low emissions, and stirring performance will happily coexist in one package."

The only problem with these hot hybrids may be finding them.

There's a waiting list -- with a \$500 refundable deposit -- for the Lexus RX 400h, said Robert Zanette, a salesman at Sewell Lexus in Fort Worth. The SUV is not expected out until early next year.

"It's going to be first-come, first-serve," Zanette said.

A six-month waiting list is also in place for the 2004 Prius at all Dallas-Fort Worth area Toyota dealerships.

And would-be buyers are putting down deposits for Toyota's Highlander SUV, due out this year, said Shawn Swanson, general manager of Don Davis Toyota in Arlington. Swanson said he doesn't anticipate quite the supply problem with the Highlander that the Prius has faced.

Those who buy a hybrid this year will also get a little help from Uncle Sam, a tax deduction of \$1,500. According to the IRS, this deduction is subtracted from your income when filing your tax return, so you don't have to itemize to take advantage of it. Include your deduction on line 33 of Form 1040 and identify as "clean fuel," the IRS says.

The deduction will be cut to \$1,000 by 2005 and \$500 in 2006, then phased out. Hybrids that now qualify for the Clean Fuel Act tax deduction are the Prius, the Honda Insight and the Honda Civic Hybrid.

Funding to extend the deduction is part of the proposed energy bill before Congress. The deduction has bipartisan support, Kliesch said.

Even with the tax break, **McManus** said, the cost of a hybrid will be higher than a gas-powered model.

"Depending on the model and the amount of hybrid materials, you're going to pay between \$3,000 and \$5,000 in a premium for a hybrid," he said.

McManus believes that gasoline prices will have to increase substantially to fully grab the attention of most Americans.

"In order to get people to really change their behavior, gas prices have got to be at \$5 or \$6 a gallon and stay there," he said. "Two dollars a gallon is not the tipping point."

Still, the average consumer is becoming more aware of the hybrid alternative and less wary of the technology, ac-

according to a recent survey by Power. Misconceptions of the electric battery pack still exist, **McManus** said.

For the record, you don't have to plug the vehicle battery into a garage outlet every night, and if the battery does need to regenerate while on the road, the gasoline motor can kick in, so the car's range will last until you run out of gas.

Rolling out hybrids

Some hybrid fuel-electric-powered vehicles that automakers are launching:

2004: Chevrolet Silverado FAS, Dodge Ram Contractor's Special, Ford Escape, GMC Sierra FAS, Honda Accord, Lexus RX 400h, Toyota Highlander.

2005: Acura MDX, Acura RL, Honda Odyssey, Honda Pilot.

2006: Ford Futura, Nissan Altima, Saturn VUE BAS, Toyota Camry, Toyota Sienna.

2007: Chevrolet Malibu BAS, Chevrolet Tahoe AHS II, Dodge Caravan, GMC Yukon AHS II, Lexus LS.

2008: BMW 3 Series, Chevrolet Silverado AHS II, GMC Sierra AHS II, Toyota Tundra, Volkswagen Passat.

Source: J.D. Power and Associates

FYI

To see some of the new hybrids, get the May issue of Consumer Reports, or see them online at the Department of Energy, at www.fueleconomy.gov, or the American Council for an Energy Efficient Economy, at www.greencars.com.

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Section: NEWS

HYBRID BUYERS ARE WAITING IN THE WINGS ENVIRONMENTALLY CONSCIOUS LINE UP TO BUY MOST FUEL-EFFICIENT CARS

George Raine, Chronicle Staff Writer

Fueled in part by growing concerns about gas prices and worldwide oil production, along with increased sensitivity to environmental issues, sales of hybrid automobiles nationwide are on pace to nearly double this year.

Here in the Bay Area, car buyers are waiting upward of three to four months for delivery of a Toyota Prius, a popular hybrid that the manufacturer says can travel 60 miles per gallon.

But before you rush off to buy stock in Honda or Toyota -- the only manufacturers of these cars that run on both gas and electricity -- keep in mind that even with an estimated 40,000 sales this year for both automakers the business for such vehicles is more niche than rich. Going out 10 years, perhaps 1 million of the 17 million new vehicles purchased in the United States will be gas-electric, according to industry analysts J.D. Power and Associates.

"It won't be mainstream in the consideration of most people because most do not care enough about fuel economy," said Walter **McManus**, of the Troy, Mich.-based research firm.

Apparently, some folks in the auto industry didn't get that memo. Honda and Toyota are about to get some serious competition for the hybrid dollar, including a number of SUV models, from the likes of Ford, Mercury, Chevrolet, Dodge and even Toyota's Lexus Division.

Up to 30 hybrid models are expected on the market by 2009. With gas prices spiking nationwide, it's not surprising that cars that get more than 60 miles per gallon are getting a second look from once-lukewarm consumers. And nowhere is that interest more acute than in the Bay Area, where the perfect storm of environmentally conscious consumers and sky-high gas prices have made the hybrid a hot commodity.

The mantra at dealerships like Toyota of San Francisco, which leads in hybrid sales among 63 Northern California Toyota dealerships (hybrids now represent 20 to 25 percent of its total sales), is that the technology has crossed into the mainstream of consumer consciousness. "That's why there is such a demand for the car," said Russ Mobley, who heads new car sales at the dealership and must tell all those Prius buyers about the three- to four-month wait.

The dealership has accepted deposits on more than 600 of the 2004 Prius models and delivered half of them. Orders are up at the dealership's two locations to seven or eight per day, compared with three or four per day two weeks ago. There were 12 orders on a recent Saturday.

"The first customers here were the Sierra Club members, very concerned citizens of San Francisco," said Mobley. "Now, we are seeing the economic buyers, people affected by the cost of fuel, like we all are, but they want to do all they can to reduce those expenses."

Clearly, there are environmental advantages to a cleaner-burning, more fuel-efficient car. Remarkably, the Honda Insight's EPA fuel economy rating for city/highway driving is 60/66, the highest for any passenger car for the fifth consecutive year. For the uninitiated, the car itself chooses when to run itself on gas or electric, enabling higher gas mileage overall.

And there may be yet another advantage in California: owners of hybrid vehicles would be allowed to use carpool lanes, even when driving highways alone, under a bill endorsed by Gov. Arnold Schwarzenegger and which was passed by a key Assembly committee last week. The drivers could use high-occupancy lanes even if not carrying the requisite number of passengers, usually two or three, according to the bill by Assemblywoman Fran Pavley, D-Agoura Hills (Los Angeles County).

And if that's not enough for you, there's another incentive, modest though it is. There is a clean-fuel Internal Revenue Service deduction for owners of the Prius and the two Honda models, the Insight and the Civic Hybrid.

It was \$2,000 in 2003, \$1,500 for 2004, \$1,000 in 2005 and \$500 in 2006, after which it goes away.

Bob Epstein of Berkeley, co-founder of Sybase, a software firm, and three other information technology companies, bought a 2001 Prius and then a 2004 Prius at Berkeley Toyota.

Epstein, 51, has a passion for the topic of hybrids in part because he played a role as an advocate for legislation in 2002 with which California became the first government in the world to mandate greenhouse gas reductions from passenger vehicles. But largely he thinks the Prius is a great car.

Of course, that didn't help persuade the Epsteins' 17-year-old son, Colin,

a senior at Berkeley High School, of the merits of the Prius. "We have told our son that this car is a babe-magnet," said Epstein. "But whenever I give him and his friends a ride home, they just think it's a space ship."

Still, automakers, Toyota among them, have said they believe hybrids will grow in popularity. Ford Chairman Bill Ford Jr. told National Public Radio this month, "Because if you look at what's happening now with oil prices, and if you look at the business like I do, that this is something I want my children and my grandchildren to be involved with, then it's almost an inescapable conclusion that new technologies are going to be required."

J.D. Power and Associates research, said **McManus**, identifies hybrid buyers as people willing to pay more for green or environmentally friendly products, and they are very interested in helping reduce pollution from vehicles. In a survey, 35 percent of all buyers told J.D. Power they were willing to pay more for green products, while 85 percent of hybrid buyers said they would pay more. The survey found that hybrid buyers on average had higher incomes.

"They are elite folks with distinctive views of the environment and higher incomes," said **McManus**.

The Sisters of Mercy, a Catholic religious order with a regional office in Burlingame, might take issue with the elite

label, but they are true believers. The order has bought eight Prius cars, which this year come in three packages ranging from \$23,000 to \$26,200, to get the nuns to various ministries.

"I sing its praises all the time," said Sister Amy Bayley, "and encourage people to test drive the one I use so that they can have first hand feel of how it works. It's spacious and comfortable in its build and has very fine pickup. I'm borderline apostolic about it."

The 2004 Prius is widely considered better in every category, particularly in power and aerodynamic styling, than the 2001 model, and it moves up from a compact to a midsize sedan.

"My kids wanted me to park a block away from the school when I came for them in the 2001 model," said Arianna Huffington, the author and syndicated columnist who championed hybrid technology in her 2003 California gubernatorial campaign. "Now, they are very happy with the 2004" Prius.

Huffington says her children now permit her to pull up in front of their school.

As with most anything, some controversy exists. Critics have said the EPA estimates on the gas mileage of hybrids are too high. While Toyota says the Prius gets 60 miles per gallon, others say it's more like 45.

Epstein, the tech executive who has been active in promoting hybrids, still sees a benefit, even at the lower mileage rate. "The car is successful because it is fun to drive, similar in price to other midsize cars," said Epstein. "It has more power than other cars in its class because of the electric motor. It is quiet in a way that you have to experience to believe.

It is economical at the pump -- 45 mpg with \$1.75 per-gallon gas means I'm saving \$230 per year over the Honda Accord it replaced."

Epstein added, "Just because someone can afford to waste natural resources doesn't mean it is a good idea."

His test for a car is whether it can carry four adults from a standing start up steep Marin Avenue in Berkeley to reach 25 mph. How fast did he get it going? "Twenty-five, of course, is the speed limit. I wouldn't go over that. "

A look inside a hybrid car

How can a car get more than 50 miles to the gallon in city driving? By using two motors, one gasoline powered, the other electric. Vehicles like the Toyota Prius, below, and the Honda Insight use a gas engine to power the vehicle and to charge the batteries that power the electric engine.

ELECTRIC MOTORGENERATOR -- A hybrid car's electric motor takes over from the gasoline engine in stop and-go driving, so a hybrid's fuel economy is greater in city rather than highway conditions. The electric motor doubles as a generator when it is not needed to power the car.

TRANSMISSION -- Honda and Toyota take different approaches. The Toyota Prius uses an automatic planetary gearing system with the electric motor alone to power the wheels at low-demand times (at speeds below 10 mph, for example) or uses both motors for high-demand driving, like quick acceleration. The Honda Insight uses a traditional transmission that gets its energy from the gasoline engine and sometimes the electric motor, too.

NETWORK OF CONTROLLERS -- Intelligent electronics decide when to use the motor and engine and when to

store electricity in the batteries for future use.

All modern cars contain computers that monitor and control the vehicle's key functions, but a hybrid vehicle contains many more functions, so its network of controllers is larger. The crucial additional task involves monitoring the battery charge and controlling the mechanisms for recharging batteries.

GASOLINE ENGINE -- Hybrid cars are still essentially gasoline powered vehicles. All the electricity they use comes ultimately from the gasoline engine. But the gas engine in a hybrid vehicle is smaller and is turned off when the vehicle is at a stop or cruising at low speeds.

BATTERIES -- In hybrids, nickel metal hydride (NiMH) batteries provide higher energy density and longer service than typical car batteries. In the Prius, the battery is made up of dozens of modules, which in turn have several cells.

Sources: Automobile Quarterly; The Henry Ford Museum; Ward's AutoInfoBank; Toyota Motor Corporation; American Honda Motor Company

----- CHART:

Comparing hybrids to gasoline-engine cars

A look at how the Honda Civic hybrid stacks up against the traditional Civic and how the Toyota Prius hybrid fares against the Camry:

Honda Civic

	Hybrid	Gas engine
EPA size class	compact	compact
EPA mileage	47/48	35/40
Annual fuel cost	\$627	\$804
Price	\$20,140	\$13,500

Toyota

	Prius	Camry
EPA size class	midsize	midsize
EPA mileage	60/51	23/32
Annual fuel cost	\$544	\$1,121
Price	\$20,801	\$19,560

Notes: Mileage is for vehicles with automatic transmissions and reflect the highest EPA mileage for that model. Fuel cost based on 50 percent highway driving, 50 percent city driving, 15,000 miles and per gallon price of \$2. Price is manufacturer's suggested retail price for the base vehicle. Sources: EPA, Edmunds.com, Toyota, Honda.

PHOTO (4): GRAPHIC: CHART: SEE END OF TEXT

PHOTOS: (1) Sisters Patricia Ryan (left), and Charleen Koenig, of the Sisters of Mercy in Burlingame, are true believers in the Toyota Prius hybrid.

Scott Sommerdorf

The Chronicle, (2-4) Bob Epstein, the founder of Sybase, is an environmentalist and a hybrid advocate. He bought a 2001 Prius and then a 2004 Prius. Epstein says the Prius is a great car.

Photos by Frederic Larson

The Chronicle, GRAPHIC: Illustration by Frank O'Connell

New York Times Graphic

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POTENTIAL HYBRID BUYERS CONCERNED ABOUT BATTERY LIFE, J.D. POWER SAYS

Life expectancy of battery packs running the electric side of gasoline- electric hybrid vehicles is still a worry for potential hybrid buyers, a new study from J.D. Power & Associates says.

A Toyota Motor Corp. official recently told GRFR battery pack life expectancy is still a relative unknown for its hybrid Prius.

Consumers are also worried about reliability of hybrids, as well as acceleration performance, J.D. Power says.

Despite these worries, J.D. Power predicts hybrid vehicle sales to exceed 100,000 units in 2004, up significantly from the 47,000 units sold last year. Still, a 10% market share for hybrids sold by Toyota and Honda by 2006 - as recently predicted by ABI Research - "seems like much too high a number," Walter **McManus**, J.D. Power's global forecasting director, told GRFR recently.

The group pegs future hybrid sales at "more than 440,000 units by 2008," which would be just 2.6% of this year's projected new vehicle sales market, according to J.D. Power sales predictions.

But if gasoline prices continue to rise - and J.D. Power's latest survey shows consumers expect they will - "then the clean-diesel engines and hybrid-electric powertrains that automakers are bringing to the market could be much more successful than skeptics, and even some proponents, expect," said **McManus**.

In a positive trend for automakers looking to sell clean-diesel vehicles and hybrids, consumer awareness of these vehicles is increasing, J.D. Power says.

In a survey of 7,126 consumers who purchased a new light-duty vehicle in the past three years (including owners of diesel cars, hybrids and conventional vehicles), more than 75% expressed "an awareness" of the hybrid-electric powertrain, while 40% indicated an awareness of clean-diesel engine technology, according to J.D. Power.

About 57% of respondents who own conventional engines said they are "very" or "somewhat" familiar with hybrid-electric powertrains, while 39% expressed similar familiarity with clean-diesel engine technology, J.D. Power said.

But despite the higher awareness of hybrids, compared to clean-diesels, the latter engines "appear to have valuable

attributes that make them more attractive to American consumers," the group said.

Attributes favoring clean-diesel vehicles: "familiarity, fuel economy, and that diesel is a proven technology," according to J.D. Power's survey.

Current hybrid owners see diesel as an attractive alternative due to diesel's better torque, the survey showed.

But ultimately the success of these vehicles will depend critically on the retail prices at which they are offered, J.D. Power said.

"Given current estimates of cost, it appears that hybrid-electric powertrains are perceived to have similar benefits, though the emphasis differs," the group said. "Regardless of powertrain owned, respondents see fuel economy and 'better for the environment' as the key benefits of both clean-diesel engines and hybrid-electric powertrains.

"Fuel economy is seen as the top benefit of clean-diesel engines by all three ownership groups," J.D. Power continued. "Owners of diesel cars and conventional light vehicles see fuel economy as the top benefit of hybrid-electric powertrains, by owners of hybrid-electric cars see 'better for the environment' as the top benefit of hybrid-electric powertrains."

But looking at sales figures over the past few years, it's clear that American's don't seem too concerned with fuel economy, given the astronomical boost in SUV sales.

Until gasoline prices hit a level that spurs consumers to buy into the hybrid or light-duty diesel market, sales of these vehicles will likely continue to make up a very small portion of annual sales figures, **McManus** told us.

On average, study respondents indicate that they expect the price they pay for a gallon of gasoline to rise by 2% each year, J.D. Power said. However, about 25% of the respondents said they expect gasoline prices to rise by 6% or more each year.

"The faster a consumer expects fuel prices to rise, the more likely they are to buy a vehicle with a hybrid-electric powertrain or a clean-diesel engine," **McManus** said. "Still, most consumers want to see the up-front costs of purchasing a hybrid or clean-diesel offset by the fuel savings."

So at what price for gasoline do these vehicles start looking attractive to consumers?

"If inflation in fuel prices is 10% higher fuel price per year, then we get 20% of people whose first choice would be hybrid-electric as a first choice," **McManus** told us.

Based on a starting price of \$1.50/gal, that's a 15 c/gal 1-year increase in gasoline prices, **McManus** said.

To get to 25% of people whose first choice would be a hybrid-electric vehicle, gasoline prices would have to increase 15% or more, he said. Based on a \$1.50/gal starting price, that would be a 22.5 c/gal 1-year increase in gasoline prices.

But those estimates assume 10% inflation, as gasoline prices have remained generally flat in real terms for decades, he said, adding that 10% inflation "is almost higher than any study would suggest."

Ultimately, sales of these vehicles will be driven by consumers who want to "buy green," **McManus** told us. Consumers will buy these vehicles to reduce vehicle pollution he said. "They're told that's what they do."

?Jeremy Glunt

---- INDEX REFERENCES ---

COMPANY: TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Environmental (1EN24); Environmental Solutions (1EN90); Battery Technology (1BA32); Electric Vehicles (1EL48); Automotive Fuels (1AU95); Automotive Models (1AU61); Downstream Oil (1DO72); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Automotive Technology (1AU48); Transportation (1TR48); Oil & Gas Prices (1OI34); Automobiles (1AU45); Automotive Environmental Initiatives (1AU68); Oil & Gas Market (1OI62); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Fuel Cell & Battery (1FU90))

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OTHER INDEXING: (ABI RESEARCH; GRFR; POWER ASSOCIATES; TOYOTA MOTOR CORP) (J.D. POWER; Jeremy Glunt; McManus; POTENTIAL HYBRID BUYERS CONCERNED; Walter McManus)

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4/12/04 NPR Morning Edition (Pg. Unavail. Online)
2004 WLNR 21544162

NPR Morning Edition
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April 12, 2004

Profile: Hybrid SUVs

BOB EDWARDS, host:

Sports utility vehicles are the bane of environmentalists because of their low gas mileage, but that could change this summer. Several automakers are about to introduce SUVs that use fuel-efficient hybrid technology. The new vehicles are costlier than regular SUVs, which is likely to limit their appeal, but environmentalists see these new vehicles as a way of satisfying customers and at the same time helping the country reduce its energy dependence. NPR's Jim Zarroli reports.

JIM ZARROLI reporting:

Ford was the first automaker to use mass production to build cars. It helped popularize high-performance engines in the 1930s. The company was slow to develop a hybrid vehicle, a field so far dominated by Toyota, but it wants to make up for lost time. To Chairman Bill Ford Jr., hybrid vehicles are the wave of the future.

Mr. BILL FORD Jr. (Chairman, Ford Motor Company): Because if you look at what's happening now with oil prices and if you look at the business like I do, that this is something I want my children and my grandchildren to be involved with, then it's almost an inescapable conclusion that new technologies are going to be required.

ZARROLI: This summer, Ford will introduce a new version of its Escape SUV that uses both electricity and gasoline to power itself. This so-called hybrid technology was pioneered by the Toyota Prius, but almost all of the biggest automakers are now developing some version of a hybrid vehicle. Jon Coifman is a spokesman for the Natural Resources Defense Council.

Mr. JON COIFMAN (Spokesman, Natural Resources Defense Council): The hybrid technology's really entering its second generation, and this is the period where you're going to see it blossoming into a much wider array of vehicles, not just the small compact sedans that are on the road today.

ZARROLI: By this time next year, Coifman says both the Honda Accord and the Toyota Camry will be available in hybrid versions and there will be at least three hybrid SUVs on the market from General Motors, Toyota and Ford. Last week, Ford brought the newest Scape to New York for the auto show. On a sunny morning, chief engineer Mary Ann Wright took one on to FDR Drive for a quick spin.

Ms. MARY ANN WRIGHT (Chief Engineer, Ford Motor Company): Watch when I cut off this police officer. OK.

ZARROLI: Hybrid vehicles have both a gasoline-powered engine and a battery and they use both as needed. As Wright pulls off the highway on to a side street, the car decelerates. It slowly switches back to electronic mode, which is much quieter.

Ms. WRIGHT: And there we go. We're going to go in in just a moment.

ZARROLI: Wright says the engine helps recharge the battery so the vehicle never needs to be plugged in.

Ms. WRIGHT: See, it's charging the battery and now it's going to go down. There it is.

ZARROLI: Partly because hybrids recharge themselves when they're braking, they get their best mileage in stop-and-go traffic. Ford says the Escape gets 35 to 40 miles per gallon in the city and about 30 on the highway. For all of their attributes, hybrids represent just a tiny part of the auto market. One reason is their cost. Hybrid technology adds an estimated \$2,000 to \$3,000 to the price. Auto analyst Walter **McManus** of J.D. Power and Associates says the Toyota Prius is in demand but most buyers are committed environmentalists.

Mr. WALTER **McMANUS** (J.D. Power and Associates): The hybrids today, at the prices they're paying, don't pay off in the time that they're going to hold it in terms of fuel savings. So they're clearly putting their money where their mouth is. They're willing to do it because they want to do something about the environment.

ZARROLI: **McManus** sees the hybrids as very much of an untested commodity and he suggests that the automakers now selling them may be motivated in large part by public relations. Bill Ford insists his company is serious about the technology. He notes that it will introduce two more hybrids in coming years, including another SUV. He also says hybrids will become less expensive in time.

Mr. FORD: Any time you have new technology, it is more expensive. Once we get a lot of these out there and the volume ramps up, the cost should come down just like any other technology curve that we've seen.

ZARROLI: Once prices do come down, he says, the market for hybrids is likely to grow. Ford says government officials can help increase public acceptance of hybrids by continuing to offer tax breaks to people who buy them.

Mr. FORD: They really want to encourage fuel efficiency and CO2 reduction. They ought to help with the introduction of these new technologies by giving tax breaks to either individuals or companies that adopt them. I think it'll happen anyway, but it'll certainly happen much faster if there are incentives to get there.

ZARROLI: Hybrid SUVs also face another hurdle. The Escape is a mid-size vehicle with just a four-cylinder engine. Though its power is boosted by the battery, the Escape may not yet be big enough to satisfy all SUV fans, but at a time when gasoline prices are rising, automakers think many drivers will be ready to give hybrids such as the Escape a first look.

Jim Zarroli, NPR News, New York.

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COMPANY: GENERAL MOTORS CORP; ASTON MARTIN LAGONDA LTD; FORD MOTOR CO; TOYOTA MOTOR CORP; ESCAPE

NEWS SUBJECT: (Business Management (1BU42); Sales & Marketing (1MA51); Customer Service Management (1CU78); Major Corporations (1MA93); Customer Service Effectiveness (1CU08))

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REGION: (North America (1NO39); New York (1NE72); Americas (1AM92); USA (1US73))

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OTHER INDEXING: (ESCAPE; FORD MOTOR; FORD MOTOR CO; GENERAL MOTORS; HONDA; NATURAL RESOURCES DEFENSE COUNCIL; NPR; NPR NEWS; SUV; TOYOTA; TOYOTA CAMRY; TOYOTA PRIUS) (Bill Ford; Bill Ford Jr.; Chief Engineer; Coifman; Ford; J.D. Power; Jim Zarroli; Jon Coifman; Mary Ann Wright; McMANUS; Mr.; Mr. BILL FORD Jr.; Ms.; SUVs; Walter McManus; Wright; ZARROLI; ZARROLI: McManus; ZARROLI: Wright)

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April 8, 2004

Section: Front

Bill Ford: Steeper gas taxes would fuel hybrid demand

April 8, 2004

NEW YORK ? At a single media event at the New York auto show Wednesday, Bill Ford Jr. said Ford Motor Co. would add another fuel-efficient hybrid to its lineup, the Mercury Mariner SUV, and took the wraps off a gas-chugging Mustang concept race car.

Then the avowed nature lover told reporters that he supports higher gasoline taxes and more government incentives to encourage consumers to buy hybrids, but conceded that a fuel tax hike probably isn't politically viable.

The Detroit News

Rarely have Bill Ford's dueling priorities been on such public display. For as long as he has been Chairman and CEO of Ford, he has tried to be a capitalist even environmentalists can respect.

But he has instead been dogged and sometimes ridiculed by leaders of the green movement for simultaneously championing environmentally responsible vehicles and selling fuel-hungry profit-makers such as the giant Ford Excursion sport utility vehicle.

Even as gasoline prices reach record highs, Americans will not change their vehicle buying habits or embrace higher-priced hybrid technology unless they are hit hard in their pocketbooks, Ford said.

He suggested a combination of raising fuel taxes and offering federal tax incentives of \$3,000 to consumers willing to pay sticker prices that are thousands of dollars higher for hybrid-electric vehicles than for conventional models.

"The problem we've had in this country," Ford said, "is there's been a real disconnect between what society says it wants and what individual customers say they want. Why? It's driven principally by low fuel prices."

Ford said he did not know what would be an appropriate fuel tax hike but he alluded to statements he made several years ago suggesting at least 50 cents per gallon.

Activists want more

A coalition of environmental groups applauded Ford for expanding its hybrid lineup to three with the Mariner, due in 2006 as a sister vehicle to the Ford Escape Hybrid that debuts this summer.

But the coalition also called on him to "lead the industry in curbing global warming and cutting America's oil dependence by raising the fuel economy of all of its vehicles."

Comprised of the Sierra Club, Global Exchange and Rainforest Action Network, the coalition plans to stage a demonstration Saturday outside the Jacob K. Javits Center where the auto show is being held. They will hand out material urging showgoers to call on Ford to raise the fuel economy for all of its vehicles.

A clearly miffed Bill Ford responded to the challenge by ticking off a list of the company's environmental efforts.

"In a way this makes me mad," he said, "because if you look at what we've done with the Rouge, nobody else has done that. We're the first American company with a hybrid. We are pushing hard not only on fuel cells but internal combustion hydrogen."

Ford's renovation of the Rouge factory complex in Dearborn includes several environmentally friendly features, such as converting paint fumes into energy to help power the plant.

The activists remained skeptical.

Daniel Becker, Sierra Club's director of global warming and energy programs, scoffs at the idea of using purely economic pressure to drive consumers to buy more fuel-efficient vehicles.

"We're not opposed to properly structured higher gas taxes," Becker said. "But manufacturers should also be challenged with higher fuel economy standards requiring them to add technology that will reduce pollution and curb global warming."

Jason Mark, of the human rights group Global Exchange, praised Ford for marketing hybrid vehicles, which use a gasoline engine and an electric motor to save fuel and cut emissions.

"But we are left wondering: If Ford can build a clean car, why would it continue to manufacture outdated gas guzzlers?" Mark said. "It's clear that breaking our oil addiction isn't a question of technology, but an issue of political will."

The coalition tried to use helium balloons to launch a giant banner outside the convention hall Wednesday that proclaimed, "Ford: Escape All Gas Guzzlers Now." But the banner did not get far off the ground before it fell victim to a chain link fence.

Hybrid sales low

Bill Ford said the automaker is working on technology aimed at increasing fuel efficiency across its product line, but offered no specific goals. In 2000, Ford had said it hoped to improve fuel consumption in its SUVs 25 percent by mid-decade but later said it would not achieve that goal.

Some sort of economic carrot and stick may be imperative in convincing reluctant consumers to spend several thousand dollars more for hybrid vehicles since it might take a year or more to realize that much in fuel savings, said

Walter **McManus**, an analyst specializing in hybrid vehicles with market research firm J.D. Power and Associates.

"For acceptance to be very broad ... you have to get the cost/ratio benefit and it's not there yet," **McManus** said.

Japanese automaker Toyota Motor Corp., has been fairly successful in marketing its Prius hybrid car and recently pumped up production plans, but sales volumes remain small. Through March, Toyota sold 9,918 of the vehicles, a 62.4 percent increase from the first three months of 2003, according to Autodata Corp.

General Motors Corp. has promised to put 1 million hybrid vehicles on the road by 2007, but GM product czar Bob Lutz said convincing the public to move toward more fuel efficient vehicles has always been a pocketbook issue.

"I think you've heard GM say the only way you're going to drive the market toward smaller and more fuel efficient cars is through the market mechanism ? gasoline price," Lutz said Wednesday. "That's how they get Europeans to drive smaller cars. But you couldn't raise the price of fuel suddenly. That introduces a shock to the system."

An immediate jump in gasoline taxes "wouldn't be good for anybody," agreed Eric Ridenour, executive vice president product development at DaimlerChrysler AG's Chrysler Group.

Bill Ford admits that raising gas taxes is almost a political nonstarter. He contends, however, that the combination of higher fuel taxes, plus income tax incentives for hybrid vehicle buyers, is preferable to stricter federal corporate average fuel economy standards, known as CAFE, that have been in place since the 1970s gas crisis. The standards require that cars and trucks meet specific fuel economy ratings.

"Under the CAFE system we're being pulled one way by the customer and pulled another way by regulation," Ford said, "and to me that's unsustainable in the long run."

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COMPANY: GENERAL MOTORS CAPITAL TRUST D; ASTON MARTIN LAGONDA LTD; FORD MOTOR COMPANY OF CANADA LTD; TOYOTA MOTOR CORP/; ESCAPE; SIERRA CLUB; DAIMLERCHRYSLER AG; FORD MOTOR CO (BELGIUM) SA; FORD MOTOR CO; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG (RUSSIA); FORD MOTOR CO AS; DAIMLER AG; TOYOTA MOTOR NORTH AMERICA INC; MOTORS LIQUIDATION CO; GENERAL MOTORS CORP

NEWS SUBJECT: (Weather & Climate (1WE93); Government (1GO80); Taxation (1TA10); Major Corporations (1MA93); Economics & Trade (1EC26); Business Management (1BU42))

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REGION: (New York (1NE72); Americas (1AM92); USA (1US73); North America (1NO39))

Language: EN

OTHER INDEXING: (AUTODATA CORP; CAFE; CHRYSLER GROUP; DAIMLERCHRYSLER AG; ESCAPE; FORD ESCAPE HYBRID; FORD MOTOR CO; GENERAL MOTORS CORP; GM; ROUGE; SIERRA CLUB; TOYOTA MOTOR CORP) (Becker; Bill; Bill Ford; Bob Lutz; Daniel Becker; Eric Ridenour; Ford; Ford Excursion; Ford Jr.; Global Exchange; J.D. Power; Jacob K. Javits; Jason Mark; Lutz; Mark; McManus; Rainforest Action Network; Rarely; Walter McManus)

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Volume 19; Issue 12

IS THE HIGH PRICE OF GASOLINE PUSHING CAR BUYERS TO DIESELS?

When gasoline prices rise, interest in diesel vehicles soars. That's the opinion of Ken Moriarty, Volkswagen's corporate strategy director. He should know. Volkswagen is the world's largest manufacturer of diesel-powered passenger cars. And other experts sound surprisingly bullish about the prospects for clean diesels to take a bigger piece of the North American light-duty vehicle market in the next decade.

With gasoline prices over \$1.70/gal in much of the U.S., "by next month it will be impossible to find a VW diesel" in a local dealership, Moriarty told the Society of Automotive Engineers World Congress, held earlier this month in Detroit. If gasoline prices consistently stay over \$2/gal, diesels will expand their market, he predicted.

J.D. Power Executive Director Walter **McManus** foresees light-duty diesels taking 10-25% of new vehicle sales by 2012. The bigger share assumes that diesels cost only \$1,000 more than a comparable gasoline vehicle. If they cost \$2,000 more, then diesel share probably would range from 10% to only 15% by 2012, he said.

The perceived benefit of fuel economy ranks number one for diesel owners, but only 33% for the average U.S. buyer, **McManus** said.

Center for Automotive Research Chairman David Cole says that about 15% of U.S. light-duty vehicle sales could be diesel by around 2012. "People will accept the new diesel. It's refined, quiet, durable, torque-y," although the emissions and engine-cost issues remain a competitive challenge today.

Automakers are reluctant to commit large amounts of capital for high-volume diesel engine production for North America, so they'll probably rely on imports at least for the short term, Cole predicts. Lack of U.S. government action pushing more aggressive fuel economy or regulations tightening CO2 limits likely would dampen diesel investment. "We don't have the regulatory stability to support heavy investment in diesel," at least not beyond a 15% share, Cole said.

?Jack Peckham

--- INDEX REFERENCES ---

COMPANY: VOLKSWAGEN AG

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Oil (1OI41); Gasoline (1GA40); Land Transportation (1LA43); Automotive Fuels (1AU95); Downstream Oil (1DO72); Oil & Gas (1OI76); Manufacturing (1MA74); Passenger Transportation (1PA35); Transportation (1TR48); Oil & Gas Prices (1OI34); Automobiles (1AU45); Oil & Gas Market (1OI62); Automotive (1AU29); Diesel (1DI26))

REGION: (Americas (1AM92); North America (1NO39); USA (1US73))

Language: EN

OTHER INDEXING: (AUTOMOTIVE RESEARCH; KEN MORIARTY; MORIARTY; SOCIETY OF AUTOMOTIVE; VOLKSWAGEN; VW) (Cole; David Cole; J.D. Power; Jack Peckham; McManus; Walter McManus)

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Section: News

Diesels still face many stern tests in North America
Richard Truett DETROIT --

Diesel vehicles could account for 25 percent of new-vehicle sales in the United States if the technology were more economical for the consumer.

That's what a panel of manufacturer and supplier executives concluded at the SAE World Congress.

But there are many obstacles before reaching that economy, they said. Before automakers make an investment to boost diesel engine production for North America, they will need:

- * Regulatory stability so they can produce engines that meet a single standard rather than trying to comply with patchwork legislation in different states
- * Cleaner diesel fuel with lower sulfur and higher combustibility
- * Higher gasoline prices so consumers who spend extra for a diesel engine can make it pay for itself through lower fuel costs
- * Consumers to experience clean diesel engines and retire the image of the smoke-belching, chattering unreliable diesel.

In the panel discussion, manufacturer and supplier executives outlined how they think penetration of the diesel engine will expand in vehicles sold in the United States.

Though most panelists have different views of the diesel's role in the United States, most agreed that the cost of fuel and the engine itself would determine how popular diesels become.

In many European countries, where gasoline often costs nearly \$5 a gallon, diesels account for more than 40 percent of new-car sales. In the United States, less than 1 percent of new-car sales are diesels.

Volkswagen is the only automaker to sell diesel engines in North American cars. VW offers diesels on the New Beetle, Jetta and Golf. This summer, it will offer diesel versions of the Touareg SUV and Passat sedan.

In April, Mercedes-Benz will introduce a diesel version of the E-class sedan, and the Chrysler group plans to launch a diesel version of the Jeep Liberty SUV this fall.

No other automaker has confirmed plans for diesels for North America. Ford Motor Co. is considering a diesel-powered Focus, but no timetable for its launch has been announced.

The 3 E's

David Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich., said it's too early to anoint diesel the winner over gasoline-powered engines and gasoline-electric hybrids in the quest to improve fuel economy and reduce emissions.

``It all comes down to the three E's - energy, emissions and economics," Cole said.

Because the industry is being driven by customer demand, Cole said, the technology that can be brought to market for the lowest price will likely end up the winner.

``At this point in time, none of us has enough knowledge to pick the winners and losers," Cole said.

Panelist Robert Lee, Chrysler group's vice president of powertrain engineering, said he does not believe the cost of producing diesel engines will decrease, even as production volumes increase. But he still thinks diesel engine penetration will grow.

Diesel engines are more expensive than gasoline-powered engines.

But Lee said consumers will be willing to pay at least some of the added cost of a diesel if automakers build reliable vehicles and educate consumers on the advantages of diesel, such as being able to drive long distances between fill-ups.

Walter **McManus**, executive director of forecasting for J.D. Power and Associates, believes diesels will gain one-quarter of the market - if automakers keep the price premium of the engine at about \$1,000 and if gasoline prices remain in the \$1.50 to \$2-a-gallon range.

``People start to care about the price of gasoline, but only when it goes higher than \$1.60 per gallon," **McManus** said.

Suppliers are ready

Peter Herzog, deputy vice president for AVL List GmbH, a powertrain engineering firm in Graz, Austria, says his company has built a diesel test vehicle that reduces emissions by 60 percent to 70 percent over today's cleanest diesels with no loss of performance or fuel economy.

Robert Bosch Corp. planners believe diesel engines will begin penetrating the market in smaller trucks and SUVs first, said Karsten Hummel, Bosch's vice president of diesel engineering. ``Each year, 4 million to 6 million vehicles are made with 4.0-liter to 6.0-liter engines. We feel a diesel engine would fit in perfectly," he said.

Meanwhile, Volkswagen is having no problem selling all the diesel vehicles it can ship to the United States.

Panelist Kenneth Moriarity, executive director of corporate strategy and coordination for Volkswagen of America Inc., said it is likely that the recent spike in gasoline prices will cause VW's U.S. dealers to run out of diesels.

"When fuel gets near \$2 per gallon, diesel sales go up," Moriarity said. "By the end of the month, it may be impossible to find a diesel on a Volkswagen dealer's lot."

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---- INDEX REFERENCES ---

COMPANY: AVL LIST GMBH; FORD MOTOR CO; ROBERT BOSCH CORP; VOLKSWAGEN AG

NEWS SUBJECT: (Major Corporations (1MA93); Consumer Spending (1CO65); Economics & Trade (1EC26); Economic Indicators (1EC19))

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REGION: (North America (1NO39); Western Europe (1WE41); Austria (1AU39); Europe (1EU83); Central Europe (1CE50); Americas (1AM92); USA (1US73))

Language: EN

OTHER INDEXING: (AVL LIST GMBH; CENTER FOR AUTOMOTIVE RESEARCH; CHRYSLER; FORD MOTOR CO; ROBERT BOSCH CORP; SAE WORLD; VOLKSWAGEN; VW) (Cole; David Cole; Golf; J.D. Power; Karsten Hummel; Kenneth Moriarity; Lee; McManus; Moriarity; Panelist Robert Lee; Peter Herzog; Walter McManus)

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March 9, 2004

Europeans Favor Diesels, Japanese Like Hybrids, There's Room for Both in U.S.

William Diem

Mar. 9--The future of alternative engines for automobiles is about as clear as the future of Iraq's government, and for the same reasons. Politics are involved.

By William Diem, Detroit Free Press

Mar. 9--The future of alternative engines for automobiles is about as clear as the future of Iraq's government, and for the same reasons. Politics are involved.

The most powerful contenders in the next five years are diesels and gasoline-electric hybrids.

Both have the same advantages of lower emissions and fuel consumption than traditional gasoline engines, and they share the disadvantage of higher cost. Diesels have the political backing of Europe, where they have taken 43 percent of the market. Clean hybrids are backed by Japan, where crowded urban conditions force the stop-and-go driving in which hybrids shine. The United States is in the middle.

"There are going to be niches for both," said John Geis, a Ford engineer showing the 2-liter, diesel engine Focus C-Max at the Society of Automotive Engineers World Congress in Cobo Center. "It will depend on how you drive."

Global automakers have to develop both those systems, as well as hydrogen fuel cells, the system that's likely to be the longer-term winner, Larry Burns, General Motors Corp. vice president for advanced research, said in an interview at GM's technical center in Warren.

He said developing all these systems won't be cheap, however. "I don't know if it is sustainable for smaller automakers."

The cost of preparing for all the possible futures is a drain on automakers, pushing them into engineering partnerships with each other. In Europe, General Motors is developing its diesels with Fiat Auto, and Ford is partnering with PSA Peugeot-Citroen.

Politics can encourage or discourage technology in a number of ways. In France, Austria and many other European countries, diesel-fuel taxes are lower than gasoline taxes, which has encouraged the sale of diesel vehicles. Because

diesels are naturally 25 percent more fuel efficient, Europe imports less oil than it would need if all cars used gasoline. In Japan's crowded cities, however, diesels are rejected because gasoline burns cleaner.

All things being equal in America, clean diesel engines are likely to win more customers than gasoline-electric hybrids, according to a study to be released this month by J.D. Power and Associates. Seventy-five percent of today's gasoline-engine owners would consider a diesel if the cost was the same, against only 59 percent for hybrids, J.D. Power forecasting director Walter **McManus** told a packed audience of 400 automotive engineers during an SAE panel discussion Monday.

When the higher price of diesels and even higher price of hybrids is factored in, the number of people who would consider the alternate powertrains drops, but remains higher for diesel.

If the extra cost for diesels is \$1,500, as in Europe, about 43 percent would consider them, while if hybrids add \$3,000 as they do today, only 21 percent of gasoline buyers would consider them.

Buyers of the current hybrids available -- the Toyota Prius and Honda Insight and Civic Hybrid -- are highly educated, upper-income people, said **McManus**, which suggests that automakers may be able to get a price premium for the next batch of hybrids to hit the market, beginning with the Ford Escape Hybrid later this year.

Buyers of diesels, including some Volkswagen Jettas and New Beetles, keep their cars a year longer than owners of gasoline cars and drive 3,000 more miles annually, said **McManus**. In highway driving, diesels are more fuel-efficient than hybrids. The opposite is true in stop-and-go city driving. The next big diesel scheduled to hit the U.S. market is the Jeep Liberty, due next summer or fall.

Combining an electric motor, a powerful battery and a diesel engine would give the best fuel economy possible for cars and light trucks, but it's the least likely combination to hit the market.

The extra cost of the diesel and the electric system would limit sales so much that the fuel savings would be negligible. Not only that, Americans don't care much about saving fuel, **McManus** said.

The battle has its light side too, in the internal competition bred at the engineering centers. "The hybrid guys sit down the hall from me," said Ford's Geis, "and we rib each other all the time."

To see more of the Detroit Free Press, or to subscribe to the newspaper, go to <http://www.freep.com>

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; PEUGEOT SA; FIAT SPA; FIAT AUTO SPA

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(1GU47); Iraq (1IR87); Arab States (1AR46); Americas (1AM92); Japan (1JA96); Asia (1AS61); Middle East (1MI23); USA (1US73))

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Section: News

Powertrain technology grabs the spotlight

Diesels. Gasoline-electric hybrids. Safety systems. These are just a few of the topics at the Society of Automotive Engineers technology theater held during the SAE World Congress. Here are details.

Monday, March 8

8:30 a.m.

Opening session speeches by Phil Martens, group vice president of product creation of North America for Ford Motor Co., and Helmut List, CEO of AVL List GmbH.

9 a.m.

Speaker: Matthias Rabe, executive director of group research at Volkswagen AG.

10 a.m.

Panel discussion on the reasons to purchase diesel engines.

Panelists: Moderator John Heywood, of MIT; David Cole, chairman of CAR; Peter Herzog, deputy vice president of passenger car diesel engines at AVL List GmbH; Robert Lee, vice president of powertrain at DaimlerChrysler; Walter **McManus**, executive director of forecasting and analytics for J.D. Power and Associates; Kenneth Moriarity, executive director of corporate strategy and coordination at Volkswagen of America Inc.

11:45 a.m.

Speaker: Margo Oge, director of the Office of Transportation and Air Quality and the Office of Air and Radiation for the EPA. Topic: The road toward sustainable transportation.

12:45 p.m.

Speaker: Maj. Gen. Ross Thompson III, of the U.S. Army Tank-automotive and armaments command.

1:30 p.m.

Panel discussion on the future of hybrid vehicles, gasoline and diesel competition and the look of future hybrids.

Panelists: Moderator Michael Tamor, manager of propulsion system engineering for Ford; David Hermance, executive engineer of environmental engineering at Toyota Technical Center USA; Walter **McManus**, of J.D. Power and Associates; Peter Savagian, engineering director of hybrid powertrain systems for GM Powertrain; Mary Ann Wright, hybrid Escape chief engineer of North American product development for Ford.

3:30 p.m.

Panel discussion on the propulsion systems and fuels that will power future automobiles.

Panelists: Moderator Ken Baker, CEO of Altarum; Jean Botti, chief technology officer of Delphi Innovation Center; Reginald Modlin, director of environmental and energy planning for DaimlerChrysler; Robert Purcell, GM Powertrain group director of planning and new business development; Michael Rosenberg, director of corporate relations for Ballard Power Systems; Kazuo Tomita, senior vice president for regulatory and technical affairs at Toyota Motors North America.

Tuesday, March 9

9 a.m.

Speaker: Wolfgang Ziebart, deputy chairman of the executive board for Continental AG. Topic: Active safety: Electronics leading the way to smarter vehicles.

10 a.m.

Panel discussion on the advancement of electronic safety systems and the ability to detect impaired drivers, reduce rollovers and make driving safer.

Panelists: Moderator Thomas Gillespie, senior research scientist for the University of Michigan Transportation Research Institute; Sue Cischke, vice president of environmental and safety engineering for Ford; Hiroshi Fujinami, general manager of safety & chassis systems product division for Denso International America Inc.; Joseph Kaniathra, associate administrator for applied research for NHTSA; Richard Lind, director of advanced engineering for Delco Electronic Systems.

Noon

Speaker: Jim Queen, GM vice president for North American engineering.

1:30 p.m.

Panel discussion on embedded controls development - challenges for the future.

Panelists: Moderator Reinhard Ploss, CEO of Infineon Automotive & Industrial; Herbert Hanslemann, CEO of dSpace; Jack Little, CEO of MathWorks; Thomas Zurawka, CEO of ETAS.

3:30 p.m.

Panel discussion on cooperation within the global auto industry to reduce business costs and increase profits.

Panelists: Larry Denton, CEO of Dura Automotive Systems; Tom Gross, of the board of directors of the energy efficiency and renewable energy office at the U.S. Department of Energy; Thierry Morin, CEO of Valeo; Michael Schwarz, director of sustainable mobility technologies for research and advanced engineering at Ford.

Wednesday, March 10

9 a.m.

Speaker: J.T. Battenberg III, CEO of Delphi Corp. Topic: High-performance cars - a passion for performance.

10 a.m.

Panel discussion on team approach to designing high-performance cars, including a program on the new developments of high-performance vehicles and their importance.

Panelists: John Coletti, chief engineer of the special vehicle team for Ford; Dave Hill, vehicle line executive and chief engineer of Corvette for GM; Dan Knott, director of performance vehicle operations for DaimlerChrysler; Peter Spence, technical director for Toyota Racing Development.

Noon

Speaker: Phil Martens of Ford. Topic: Market impact of high-performance vehicles.

1:30 p.m.

Panel discussion on selection of materials and manufacturing processes to save time, weight and money.

Panelists: Moderator Jeffrey Helms, manager of materials research and advanced engineering department, research and advanced engineering for Ford; Mike Bernas, manager of materials development group and materials engineering department for Toyota Technical Center USA; John Fillion, senior manager of chassis and powertrain materials engineering for DaimlerChrysler; Mike Richardson, manager of Jaguar and Land Rover Research; Mark Verbrugge, director of materials and processes lab for GM, R&D Center.

3:30 p.m.

Panel discussion on the use of new technology to handle high product design and development costs.

Panelists: Moderator James Morgan, director of lean product creation for Ford; Greg Bernas, executive program manager for Toyota Technical Center USA; Andrew Brown Jr., executive director of engineering competency, DTI/research labs and product government affairs and partnerships for Delphi Corp.; Jeffrey Liker, professor of industrial and operations engineering at the University of Michigan; John Miller, St. Clair Consortium; Robert Trec-

PELLI, director of global product creation methods and deployment for Ford; James Truchard, CEO of National Instruments; David Sutherland, co-founder of the Business Innovation Consortium.

Thursday, March 11

8:30 a.m.

Panel discussion on high-performance engineering from European experts.

Panelists: Co-moderators Jeremy Burne, automotive sector specialist for the British consulate, and Guenter Fraidl, deputy vice president of gasoline engines for AVL; Roger Becker, senior consultant of vehicle engineering for Lotus Engineering; Hugh Blaxill, chief engineer R&D for Cosworth Technology Ltd.; Richard Brekus, manager of product strategy and planning for BMW North America; Jeremy Holt, president of Ricardo Inc.; Andy Tempest, managing director of automotive technology for Prodrive.

10:30 a.m.

Panel discussion on performance niche vehicles and flexible manufacturing; increasing consumer excitement, showroom traffic and profits.

Panelists: Moderator Dutch Mandel, editor of AutoWeek magazine; J.E. (Ted) Robertson, vice chairman of product development for ASC Inc.; Jack Roush of Roush Industries; Steve Saleen, president of Saleen Inc.; Carroll Shelby of Carroll Shelby International Inc.

12:30 p.m.

Speaker: John Force, 12-time NHRA funny-car champion.

1:30 p.m.

Panel discussion on the design of the 2005 Corvette and Cadillac XLR.

Panelists: Moderator Dennis Simanaitis, Road & Track magazine; Dave Hill, chief engineer of Corvette for GM; and Dave Leone, chief engineer of Cadillac XLR for GM.

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---- INDEX REFERENCES ---

COMPANY: ASC INC; AVL LIST GMBH; MIT LIBRARIES; VOLKSWAGEN AG ADR; ROUSH INDUSTRIES; DELPHI AUTOMOTIVE SYSTEMS CORP; DENSO INTERNATIONAL AMERICA INC; FORD MOTOR CO; SALEEN INC; TOYOTA MOTOR CORP; DELPHI CORP; DAIMLERCHRYSLER AG; DURA AUTOMOTIVE SYSTEMS; VOLKSWAGEN AG; DENSO NORTH AMERICA INC; US DEPARTMENT OF ENERGY

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February 13, 2004

Automakers see 2004 as the year of the hybrid

PAUL WENSKE

Phyllis Kemper enjoys the style, performance and fuel economy of her 2003 Honda Civic Hybrid. The peppy car's environmentally friendly engine is also a plus.

But she really gets a kick out of the reaction the hybrid draws from curious friends. "You'd be surprised how few people have heard of these kinds of cars," said Kemper, 74, of Leawood. "They ask, 'Are you sure you don't have to plug it in?'"

Indeed, while surveys show the majority of gas-electric hybrid car owners would unhesitatingly buy another one, for most Americans, the technology remains at the far edges of consciousness - somewhere between rewritable DVDs and the Mars rover.

Hybrids' exotic image, limited supplies and higher cost have kept them off center stage. Only three hybrid models are available in the United States: Toyota's Prius and Honda's Civic Hybrid and Insight, which was the country's first hybrid in 2000.

But consumers may pay more attention to hybrids this year and next as carmakers launch several new hybrid sedans, sport utility vehicles and light trucks.

Ford's new Escape Hybrid is expected to be the first domestic hybrid SUV when it rolls off Ford's Claycomo assembly line this summer. Toyota is promising a hybrid version of its Lexus 330 SUV later this year and a Highlander SUV in 2005. Hybrid versions of the Toyota Camry and the Honda Accord are in the works and may be on the market later this year. General Motors and DaimlerChrysler expect to launch new hybrid trucks and minivans within the next two years.

"I think hybrids are going to be a big success," said Ed Hellwig, senior road test editor at commercial auto Web site Edmunds.com.

The simple reason, he said, is that most people think gas prices will continue to rise, making fuel economy a greater concern. At the same time, Americans don't want to give up style or performance.

The hybrid technology now incorporated in popular compact cars, and soon in SUVs, has the potential to satisfy those

desires, said Angela Coletti, a spokeswoman for Ford.

"Consumers want a hybrid that gives economy but they don't want to sacrifice performance. They really do want the best of both worlds," she said.

An electric bonus

Hybrids are actually less exotic than many people think. They remain basically dependent on the familiar internal combustion engine, with the added bonus of a small auxiliary electric motor.

The electric motors work in tandem with the gas engines to add power or boost acceleration and to provide alternative power when the car is idling or starting from a dead stop.

It's the piggyback supply of electric power, which regenerates when the cars decelerate, that saves fuel. Alternate use of electric power also accounts for their significant reduction in pollutants emitted, making them popular choices for some city departments.

The Johnson County Environmental Department has five hybrids - four Honda Civics and one Prius.

"A big source of our ozone problem in Kansas City (is) gasoline-powered cars and trucks," said Mike Booth, Johnson County air quality program manger. "The emissions from these cars are 75 percent less and that is an environmental benefit for cities."

But so far, the cars mostly appeal to a fairly narrow niche of people who are willing to pay more for the technology.

Honda dealers describe steady if not spectacular sales for the Civic Hybrid and the Insight. Sam Avazpour, general sales manager at Jay Wolfe Honda in Kansas City, said Honda is trying to boost sales for the Civic Hybrid this year with financing incentives and production rewards for dealerships. Avazpour has faith in the car. "It's an amazing vehicle," he said. "Right around the corner, it's going to catch on."

Last year Toyota sold 24,000 Prius hybrids, making it the market leader. Toyota predicts it will eclipse that this year. Toyota dealers say they have limited supplies of the 2004 Prius and some orders are six to eight months out

"Performance is critical," said Walter **McManus**, executive director of forecasting and analysis for J.D. Powers and Associates, which analyzes the car industry. In a recent J.D. Powers survey, more than 80 percent of hybrid owners said they would pay more for green or environmental products, but among car buyers overall only 34 percent said they would be influenced by environmental concerns. The survey also found that 85 percent of hybrid owners would buy a hybrid again, even if it cost \$5,000 more than a nonhybrid model.

Kemper reflects hybrid owners surveyed by J.D. Powers. "It makes me feel good that I'm doing something for the environment," she said.

Gas savings

Some hybrid owners say the cars don't do as well on gas mileage as Environmental Protection Agency estimates - a complaint made by owners of nonhybrid cars as well. A USA Today article this month noted that Toyota has been receiving complaints from owners about not hitting the 51 miles per gallon highway/60 mpg city mileage advertised for its Prius hybrid.

The Rev. Donald Conrad, of Lawrence, said his Prius averages 40.3 mpg. But he said he does more highway driving, and hybrids actually get better gas mileage in city driving because the electric motor takes over more often in the stop-and-go driving.

Toyota and other carmakers point out that the EPA estimates are just that, estimates based on ideal driving conditions.

But fuel economy is a big selling point, and if savings don't offset the hybrids' bigger price tag over the average period of ownership, analysts say most buyers will be less inclined to buy.

For example, the 2004 Honda Civic Hybrid costs about \$1,970 more than a comparable nonhybrid model Civic, using figures obtained from Honda and taking into account a one-time tax deduction. The hybrid's advantage is that it has an average estimated EPA rating of 48 mpg, compared with 35 mpg for the nonhybrid Civic. Assuming actual mileage matches the EPA rating, this works out to about a \$139 savings per year, based on 12,000 miles and \$1.50 per gallon of gas. The higher cost would not be recovered until the car is driven about 109,760 miles.

Car dealers point out, however, that the combination of gasoline engines and electric motors also means the cars go farther between fill-ups, adding to their convenience.

In addition, purchasers of hybrids in 2004 get a one-time tax deduction of up to \$1,500, depending on their tax bracket. The incentive encourages conservation - a significant concern in light of the nation's soaring dependence on foreign oil. In fact, because of little change in government fuel standards, average new vehicle fuel economy has slipped from 26.2 mpg in about 1987 to 24.6 mpg today, influenced by sales of popular SUVs and light trucks.

"The Prius shows there is a market for people interested in the environment," said Brian Chee, content editor for Autobytel Inc., which operates the Autobytel.com Web site for car buyers.

SUV hybrids

The new SUV models may well drive the hybrid market into the mainstream.

Although they are among the most popular cars on the road, SUVs chronically lag other vehicles in gas mileage. But if hybrid technology can imbue SUVs with improved gas mileage and still provide style and zip, the combination could prove enticing.

Chee said it's critical that Ford get the Escape Hybrid out this summer - after delaying the introduction for more than a year.

"If Toyota brings out the Highlander (SUV hybrid) first, it will be hard for the domestic carmakers to get into the market," Chee said.

Ford's Coletti said production is on schedule.

The current Escape SUV is already one of Ford's most popular vehicles. But local dealers have little information about the hybrid vehicle other than what is offered on Ford's Web site.

Ford says the new hybrid will match the current model for performance, but will get about 35 to 40 mpg in city driving compared with the current model, which gets an estimated 23 mpg in the city. Price for the new hybrid has not been announced, but Ford has said it will run about \$3,000 more than the standard Escape's base price, which is \$20,431 to \$22,050 on the 2004 model.

The technology of the Escape Hybrid will allow the gas engine to automatically turn on and off, depending on driving conditions, extending the distance of a tank of gas. Similar to some other hybrids, the electric motor will provide a boost to acceleration and regenerative braking will capture energy to recharge the battery automatically.

Analysts say that as the public learns more about hybrids, assisted by an expected increase in competitive marketing, popularity and sales will increase.

McManus said he expects that the number of U.S. hybrid sales this year will reach 100,000, compared with 48,000 last year.

That's a significant increase, but still just a tiny slice of the total car market of about 17 million cars and trucks sold in the United States annually.

Still, the word is spreading. Some of the best salespeople remain the consumers who own hybrids.

"I wonder sometimes how many cars I've sold," joked Conrad. "I can't tell you how many times I'll be in a parking lot and someone will ask me, 'How do you like that car?'"

To reach Paul Wenske, consumer affairs reporter, call (816) 234-4454 or send e-mail to

pwenske@kcstar.com.

Hybrid advantages

Better gas mileage: Hybrids can get up to 60 mpg because they have smaller engines and don't need to rely on the gas engine all the time.

Reduced emissions: The amount of

pollution a vehicle generates is related to the amount of gasoline it burns; lowering fuel consumption decreases tail-pipe

emissions.

Performance: Unlike conventional cars, with gas engines sized for peak power, hybrids have small gas engines; extra power needed to move in a hurry or drive up a steep hill comes from the electric motor and battery. First glance Hybrid advantages

Better gas mileage: Hybrids can get up to 60 mpg because they have smaller engines and don't need to rely on the gas engine all the time.

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Photos (4, color and b/w)

2004 Honda Insight; Ford Escape Hybrid SUV; Toyota Prius

TAMMY LJUNGBLAD/The Kansas City Star

"it makes me feel good that I'm doing something for the environment," Phyllis Kemper of Leawood says of her 2003 Honda Civic Hybrid.

Graphic

Source: Hondacars.com; Star research

Comparing costs

For full text, please see microfilm

---- INDEX REFERENCES ---

COMPANY: GENERAL MOTORS CORP; AUTOBYTEL INC; DAIMLERCHRYSLER AG; HONDA MOTOR CO LTD

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January 14, 2004

Section: MOTORS

Lexus shows hybrids can hum
Detroit hears there are ways of kicking the gas-guzzling habit
By ANDREW HAMILTON

DETROIT

MOTORS

Are American motorists about to lose their old gas-guzzling habits?

The immediate response might be "Don't hold the breath", but at the North American international motor show this past week, the talk was very much of an alternative to the conventional petrol engine.

Indeed, it was more than talk. Lexus presented the RX400h, dubbed the world's first luxury performance hybrid vehicle. Hybrid technology was very much the flavour of the show, what with the second-generation Toyota Prius winning the North American Car of the Year accolade.

Toyota, seeing hybrid as the way forward, has taken it into its six-cylinder Highlander SUV, and its massive V8 FTX pick-up concept that will become its 2006 Tundra.

Honda's 2004 line-up at the show included a V6 hybrid Accord. It comes with slightly more horse power than the petrol 240 bhp Accord but with the same fuel economy as a four-cylinder Civic, or 40 per cent better than the petrol Accord. The Accord hybrid gets help on fuel economy by cutting off half the cylinders when only modest power is needed.

Ford plans a performance Escape hybrid SUV, while GM will embrace the technology in V8 engined vehicles.

Walter **McManus**, executive director of forecasting and analysis at JD Power and Associates, told Detroit audiences what they probably already knew: hybrids will not be mainstream without performance. "Until now," he said, "they have been considered underpowered, a compromise for fuel economy."

Mainstreaming means high volume - millions instead of thousands - and that's necessary to bring down the high cost of sophisticated batteries and other high-tech components of petrol-electric powertrains.

McManus admitted that making hybrids high performing isn't going to make environmentalists entirely happy.

"They have an aversion anyway to large SUVs," he said. "But if people don't buy the product, fuel economy doesn't matter. Look at the subcompact Geo Metro - it gave 60 mpg but nobody bought it and it went away."

We should see the Lexus 400h in Ireland late this year. It features an all-new battery (capable of twice the power of the battery in the Prius) and an new electric motor capable of 12,000 rpm (twice the speed of the Prius motor). The new hybrid system will deliver a peak output of around 270 bhp, nearly 20 per cent more than the non-hybrid RX 330.

Denny Clements, Lexus US vice-president, made other impressive claims: the driving range will be "far better" than 600 miles on a tank. "In real world terms you can drive the new 400h from Los Angeles to New York and back nine times, that's 54,000 miles, and produce less smog-forming emissions than painting a room with a gallon of house paint."

With all this hybrid hype, the Mercedes-Benz announcement of launching the E320CDI in April seemed like a small voice in the wilderness. It's now five years since it last sold a diesel-engined vehicle in the US.

Mercedes expects to sell between 3,000 and 3,500 E-Class diesels in the US this year. "Our selling point will be 30 per cent better fuel economy than with a similar gasoline engine," said Joachim Schmidt, board member for sales and marketing.

Diesel isn't part of the American motorists' culture, and much education is needed. A more propitious time for its arrival might be in late 2006 when low sulphur diesel becomes available in all 50 states. That's when Mercedes's rival, BMW, intends to introduce its diesels into the US.

Last week the Detroit News said that the real answer to America's energy problems wasn't getting much attention from US car makers. "Diesel engines, if used fleetwide, would increase fuel efficiency by about 50 per cent," it said. "That's better than the current crop of hybrid vehicles, and more than is expected to be gained far in the future from hybrid vehicles." The paper noted that nearly half of all cars sold in Europe were diesel.

Volkswagen is the only marque selling diesel cars in the US - it markets diesel versions of the Golf, Jetta and new Beetle, and this spring it will add a V10 diesel Touareg and a diesel Passat.

About 9 per cent of its US sales are diesel. VW is now working with the US agricultural giant, Archer Daniels Midland, on a green, clean biodiesel, combining diesel petroleum with natural or renewable resources, such as rapeseed oil or soybean oil.

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---- INDEX REFERENCES ---

COMPANY: ARCHER DANIELS MIDLAND CO; BAYERISCHE MOTOREN WERKE AG

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January 6, 2004

Section: MONEY

Hybrid hot rods, SUVs in the pipeline

James R. Healey

DETROIT

The coming generation of gas-electric hybrid vehicles will be hot rods and heavy haulers as automakers try to jazz up their image and broaden their appeal.

"Hybrids won't be mainstream without performance," says Walter **McManus**, executive director of forecasting and analysis at J.D. Power and Associates. Hybrids have been considered underpowered, a compromise for fuel economy, "but they're addressing that."

Mainstreaming means high volume -- millions instead of thousands -- and that's what it will take to bring down the high cost of sophisticated batteries and other high-tech components of gasoline-electric powertrains.

"The potential is there," says Takeo Fukui, Honda CEO. "Cost is the bottleneck. Mass production should help."

Hybrids use electric motors to augment conventional gasoline engines. Originally developed as gas savers, they have used low-power gas engines. But U.S. buyers say that full-size accommodations -- six-passenger room and four doors -- are as important as environmental concerns, according to **McManus'** data. Hybrid systems in the next year and beyond are tuned to work with powerful V-6 and V-8 engines.

Automakers claim the result will be sport-utility vehicles, pickups and vans with the power Americans expect from V-8 engines without the gas guzzling.

"A priority for performance is built into this second-generation (hybrid) system, and you will see even higher performance systems" as development continues, says Toyota spokesman John Hanson. Toyota announced a hybrid version of its Highlander sport-utility vehicle during a press preview at the big annual auto show here this week. Figures aren't final, but Toyota internally is eyeing 15% more power and 40% better fuel economy than the conventional V-6 Highlander.

Toyota said a super-power hybrid system is under development for the redesigned Tundra full-size pickup. The new Tundra goes on sale in 2006; hybrid timing is uncertain.

Honda announced at the show that it will sell an Accord V-6 hybrid this year that should have at least 6% more power and about 40% better fuel economy than the conventional V-6 Accord. The Accord hybrid gets help on fuel economy by cutting off half the cylinders when only modest power is needed.

Ford has tweaked its planned hybrid Escape SUV, and General Motors' first hybrids are its V-8 trucks.

"Will that make the environmentalists happy? Probably not," **McManus** says, "because they have an aversion to large SUVs. But if people don't buy the product, the fuel economy doesn't matter." The subcompact Geo Metro "got 60 miles per gallon, and nobody bought it, and it went away."

GRAPHIC, Color, Julie Snider, USA TODAY, Source: The Companies (BAR GRAPH)

NOTES: Autos; See related story: 07B

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December 27, 2003

U.S. Carmakers Slow To Join Hybrid Parade; Detroit to Focus on Trucks First

Greg Schneider

You can test-drive a 2004 Prius at Alexandria Toyota, but if you buy one you can't take it home. The waiting list stretches at least to April. "I didn't expect this much interest," said sales manager Mike Baird, who has 65 Priuses on back order. The gasoline-electric hybrid car that started as a fad for environmentalists has become a full-fledged phenomenon. It is Motor Trend magazine's "car of the year" and one of the fastest-selling vehicles in the nation. Washington is one of the top regions for sales of Prius and other hybrids, which also include the Honda Insight and Civic Hybrid, in part because Virginia allows hybrid cars with specially issued license plates in high-occupancy-vehicle lanes.

Area residents buy about 10 percent of the hybrid vehicles sold in the United States, according to the Electric Drive Transportation Association. Despite the technology's growing popularity, Detroit automakers seem to be playing catch-up again to their Japanese rivals, with no similar products expected from the Big Three until next year. But it isn't simply a matter of being caught flat-footed. U.S. automakers -- and some Europeans, as well -- remain skeptical about hybrid technology, and plan to approach it differently than Toyota and Honda. Led by General Motors, Detroit will start offering hybrid technology in trucks before cars, concentrating on improving the gas mileage of some of the biggest guzzlers in the fleet. "I think what they're doing is actually going against the grain in terms of putting the hybrids in the worst fuel economy vehicles in their lineup, because that is where the consumer is going to see the greatest benefit," said Walter **McManus**, an industry expert with J.D. Power and Associates. The differing strategies are laying the groundwork for a hybrid showdown in the marketplace. "Toyota will set the agenda on the car side, but it's going to be GM setting the agenda on the truck side," said Arthur M. Spinella, an auto industry consultant with CNW Marketing Research in Bandon, Ore. "There is going to be quite an intense little battle between the two of them, and everybody else is going to be sucked into their wake on this one whether they like it or not." Hybrid technology uses an electric motor to supplement a gasoline-fueled engine. The two power systems work together in different ways; the Prius uses electric power for starts and low speeds, then switches to the gas engine. Honda uses its electric motor to boost the gas engine when accelerating or climbing hills. Both recharge their batteries automatically through on-board generators and by recovering energy during braking. The result is better fuel economy -- roughly 55 miles per gallon in the Prius, and about 60 mpg in the Honda Insight -- and lower emissions of greenhouse gases. The two-seat Insight was the nation's first commercially available hybrid when it was introduced in 1999; the Civic Hybrid and the Prius both came out the following year. Since then, Honda has sold about 46,000 of its two models, and Toyota has sold more than 60,000 Priuses. The Prius really took off in October, when Toyota rolled out the redesigned 2004 model. Bigger and more stylish than its clunky-looking predecessor, the '04 Prius was the fastest-selling car in America in both October and November, taking an average of a little more than five days to sell once a car hit the showroom floor, according to Power Information Network LLC. Toyota has already increased production of the Prius.

It had planned to build 36,000 for sale in North America next year but said this month that it will make 47,000 Priuses because of high demand. Industry observers speculate that Toyota has been losing money on the Prius, which sells for about \$22,000 and cost millions of dollars to develop. Though sales are growing significantly, the cars are niche vehicles compared with the vast armadas of cars and trucks that pour from North American factories. What's more, low gasoline prices mean it would take the owner of a Civic Hybrid many years of fuel savings to make up for the extra cost of the hybrid versus a conventional Civic. That equation -- higher cost plus low volume of sales -- is unpalatable to profit-conscious decision-makers in Detroit, no matter how trendy hybrid technology becomes. J.D. Power, which surveys automotive consumers, has scaled back its predictions of future hybrid sales from 500,000 to 350,000 per year by 2008. "Unless we can get the high volume with these technologies they really aren't going to have the kind of impact we need to deliver. . . . We simply can't put them out there and subsidize them for the long term," Lawrence D. Burns, GM's vice president of research, development and planning, said last month in announcing changes to his company's hybrid plans. GM delayed the debut of its first major hybrid. The Saturn Vue, a small SUV, was to have a hybrid power system in 2005, but now will offer a scaled-down hybrid system in 2006. Instead, the company committed to offering higher-powered hybrid systems on the Chevrolet Tahoe and GMC Yukon SUVs and the Chevy Silverado pickup in 2007, promising fuel savings of 30 percent on those big trucks. While far slower than Toyota and Honda in coming to market, GM will offer hybrid systems on a bigger scale and on vehicles that, all told, consume far more fuel. Ford is taking a similar -- but smaller-scale -- approach, planning to debut a hybrid system on its Escape SUV next year. At the same time, Chrysler plans to market a diesel-electric hybrid version of its Dodge Ram pickup in 2004. All three companies have faced technical hurdles in developing the products, but they are in no rush. DaimlerChrysler, for example, has put less into hybrids than in developing efficient diesel technology, which is popular in Europe. DaimlerChrysler has watched Toyota's investment in the Prius and is not convinced that it's worth the trouble. "If you do the arithmetic on the Prius, you don't save enough fuel to pay for the hardware. In any traditional business sense, that isn't sustainable. So it isn't logical for that to become dominant or standard," said Bernard I. Robertson, senior vice president for engineering technologies and regulatory affairs at DaimlerChrysler. That attitude worries environmentalists, who want Detroit to join the hybrid race full throttle. "Both Honda and Toyota understand that this technology is the way to go, that consumers want it, and that really helps them to gain the technological lead over the Big Three," said Brendan Bell of the Sierra Club. "They're going to be so far behind by the time they finally get hybrid systems out . . . that no one will want to buy their vehicles." Detroit's relaxed approach could be a miscalculation, said Spinella, who surveys recent car buyers. "The numbers are small now, but clearly when we do customer surveys the number is going to be a lot bigger," he said. Early hybrid buyers tended to be older, wealthy males with an environmental streak, he said. Now, the average age and income are coming down, and more women are buying hybrids. "Basically," Spinella said, "they're slowly becoming more mainstream." Toyota's hybrid Prius was redesigned for the 2004 model year. The company plans to build 47,000 Priuses for North American sale next year.

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COMPANY: JD POWER AND ASSOCIATES; GENERAL MOTORS CO; FORD MOTOR CO; REAL ZA AS; DAIMLER AG; TOYOTA MOTOR CORP; POWER INFORMATION NETWORK LLC; HONDA MOTOR CO LTD; CHRYSLER GROUP LLC

NEWS SUBJECT: (Major Corporations (1MA93))

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Section: Transportation

Varied options for hybrid power
Rick Popely, Tribune staff reporter.

General Motors, responding to criticism that it is late to the party with hybrid technology, is the first to announce hybrid versions of full-size sport-utility vehicles.

The Chevrolet Tahoe and GMC Yukon in 2007 will get gasoline-electric hybrid technology GM says will improve fuel economy about 30 percent over current models.

GM said that it will offer the same hybrid system in 2008 on the Chevy Silverado and GMC Sierra full-size pickups and that the technology will not reduce the vehicles' load-carrying or trailer-towing capabilities.

Current versions of those trucks average 16-17 m.p.g. with the 5.3-liter V-8, the engine that will be used on the hybrids. A 30 percent increase would boost economy to 21-22 m.p.g.

GM would not discuss the cost of the hybrid system, how much it adds to vehicle prices or how many it expects to sell.

It gave few details on the technology. The system will include two electric motors and technology from hybrid GM mass-transit buses used in the Seattle area.

The 5.3-liter V-8 also will have displacement-on-demand, which shuts down half the cylinders when the vehicle is cruising to save fuel.

Tom Stephens, group vice president of GM Powertrain, said GM was able to reduce the size of the batteries, motors and other hardware to fit its full-size trucks without major design changes.

The hybrids will be built on the same assembly lines as conventional models.

"It's a very innovative solution. We believe this could become the industry standard in hybrid architecture," Stephens said. He added that the system could be sold to other companies.

Other hybrid SUVs are car-based and not designed for heavy-duty uses such as towing or hauling large loads.

Toyota will add light-duty hybrid systems to two car-based SUVs in the 2005 model year, the Lexus RX330 and Toyota Highlander. Ford will offer an Escape hybrid next fall using a system similar to Toyota's.

"The full hybrid technology we favor is really not well suited for work vehicles," said Dave Hermance, Toyota's executive engineer for hybrid vehicles.

Toyota's second-generation hybrid sedan, the Prius, rates 55 m.p.g. in the EPA fuel-economy estimates, and the Honda Civic Hybrid gets 47.

Gains for larger vehicles

Walter **McManus**, global forecasting director for J.D. Power and Associates, says the fuel savings can be greater on GM's hybrid trucks.

According to the EPA's estimates, a Civic Hybrid uses 135 fewer gallons of gas per year than a conventional Civic, based on 15,000 miles. On a Tahoe, GM claimed 30 percent fuel-economy improvement would save 223 gallons per year.

"That's where it's worth more in a big truck than a small car. The Civic was already pretty fuel efficient," **McManus** said.

GM also announced it had scrapped plans for a full hybrid system on the Saturn Vue and similar Chevrolet Equinox, midsize, car-based SUVs. Instead, the Vue will get an integrated alternator/starter system that provides a 12-15 percent mileage increase.

The same system could become available on the Equinox if there is demand. GM will offer a similar mild hybrid Chevrolet Malibu sedan in 2007.

GM repeated that it could build 1 million hybrids per year by 2007, but the number hinges on customer acceptance and whether GM can make money on the vehicles.

"We have to meet our business objectives and can't subsidize them in the long term," said Larry Burns, vice president of research and development. "They have to be profitable for General Motors and affordable for our customers."

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COMPANY: GRANDS MOULINS DE CORBEIL GMC; GENERAL MOTORS CORP; LEXUS; TOYOTA MOTOR CORP

NEWS SUBJECT: (Major Corporations (1MA93))

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EPA mpg test doesn't work for hybrids
Mark Rechtin LOS ANGELES --

In publicity for its Prius hybrid-electric vehicle, Toyota Motor Corp. claims the compact sedan is EPA-certified to get 51 mpg on the highway, 60 mpg in the city and 55 mpg in a "combined" driving environment.

Unfortunately for most consumers, their Priuses will never come close to that performance level.

Press a Toyota engineer, and he'll admit that most Prius owners get around 44 mpg from their cars in combined driving. That's still an impressive number, but it's 20 percent less than what Toyota tells the world.

Is Toyota pulling a fast one?

Not at all. In fact, Toyota says it would prefer to let consumers know that their actual mileage will fall short of the official rating.

But they can't because government won't let them.

Dave Hermance, Toyota's executive engineer for environmental technology, said Toyota is not allowed to publicize any mileage claims other than EPA test results.

But the EPA tests are a distortion of the real world, he said.

Outdated procedure

All vehicles - from gas-guzzling Hummer H2s to fuel-sipping Priuses - fare better on the test than they do on the road. But because mileage ratings are much higher for fuel-efficient cars, a small percentage discrepancy can translate into a big mileage difference between the test results and reality.

The discrepancy stems from an outdated EPA testing procedure that was created nearly 40 years ago and that does not reflect accurately today's driving styles or routes.

"It was developed in the 1960s, when there were limitations on the test equipment at the time," Hermance said in an interview at the recent EVS-20 electric vehicle convention in Long Beach, Calif.

"They couldn't even brake hard because the testing equipment couldn't handle it. It really is 50th-percentile driving. No one drives like that anymore."

Hermance drives a Prius and said he typically gets between 53 mpg and 55 mpg combined. But he knows exactly how to "pulse drive" the car - that is, to accelerate briskly and get it up to speed, then mostly coast and let the electric motor handle the slight modifications needed to keep the vehicle at speed.

A survey of 750 first-generation Prius owners on yahoo.com showed them obtaining between 35 mpg and 55 mpg combined driving, with an average of 44. An early poll of 30 2004 Prius owners showed most got between 45 mpg and 49 mpg.

One devoted Prius owner in Minnesota, known as John1701a, says he averaged 45.4 mpg over nearly 60,000 miles in a 2001 Prius. He has since purchased the redesigned 2004 model and has raised his average to 47.1 mpg.

Why are the official EPA numbers so different from reality?

A bigger penalty

The EPA city-driving test simulates an 11-mile, stop-and-go trip with an average speed of 20 mph and a maximum speed of 56 mph. The trip has 23 stops and includes time for the vehicle to idle at a standstill. The highway test simulates a 10-mile trip and averages 48 mph. The maximum speed is 60 mph.

The EPA already adjusts the fuel-economy results from its dynamometer test to account for "road load" - the difference between controlled laboratory conditions and the actual road. For city driving, the penalty is 10 percent; for highways, it is 22 percent.

But certain loads, such as running the air conditioning, are not considered. Neither is cold weather, which disproportionately penalizes battery-powered vehicles more than internal-combustion ones.

Dan Harrison, manager of the vehicle programs group for the EPA in Washington, admits that hybrids are difficult to test because "there are more variables with a hybrid than with an internal combustion engine."

For instance, hybrids also must account for regenerative braking and the load accessories place on the vehicle.

Just the same, Harrison said hybrids should get "within 15 percent" of the official fuel-efficiency rating.

Hybrids drive 'differently'

Larry Oswald, a veteran of GM's EV1 program and now CEO of DaimlerChrysler's Global Electric Motorcars venture, says running the air conditioning takes "a big-time chunk" out of a hybrid's fuel economy.

The air conditioning can work the battery-electric motor as hard as the actual driving, he says.

"People drive harder, accelerate quicker and brake faster than the EPA test cycle," Oswald says. "They are not op-

erating within the optimum range for the battery, power electricity and motor."

Says Walter **McManus**, a J.D. Power and Associates analyst specializing in alternative powertrains: "We're all trained how to drive a gas vehicle, but a gas-hybrid drives differently, and people are not used to it."

In J.D. Power's 2003 APEAL Study, consumers were only marginally more satisfied with the fuel economy of their Prius or Honda Civic Hybrid than they were with the base-engine versions of the comparably-sized car, **McManus** says. "APEAL" stands for automotive performance, execution and layout.

The Prius' 1.5-liter gas engine is shared with the Toyota Echo. The Civic Hybrid's engine is only marginally smaller than the base Civic engine.

"The people who think they are going to get 55 miles per gallon are going to get 40," **McManus** says. "They realize they could get that mileage with other vehicles, and they are going to be disappointed. The main problem has been that the consumer's expectations are not met, an unfulfillment of expectations."

A new test for hybrids?

As a result, the EPA is studying whether to adjust its test procedures for hybrids, perhaps making them run a different cycle that includes air conditioning or altering the amount of city driving factored into the combined test.

But the EPA's Harrison doubts such a change in the test matrix will be made specifically for hybrids.

He says that other high-mileage internal combustion vehicles show different mileage patterns as well in the real world because they are tuned for a specific range of operating conditions.

Once the vehicle goes outside those conditions, Harrison says, the mileage "drops like a stone."

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COMPANY: TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC; DAIMLERCHRYSLER AG

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INDUSTRY: (Land Transportation (1LA43); Environmental (1EN24); Environmental Solutions (1EN90); Electric Vehicles (1EL48); Automotive Models (1AU61); Manufacturing (1MA74); Passenger Transportation (1PA35); Automotive Technology (1AU48); Transportation (1TR48); Automobiles (1AU45); Automotive Environmental Initiatives (1AU68); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79); Four Wheel Drive (1FO31))

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(Dan Harrison; Dave Hermance; Harrison; Hermance; J.D. Power; Larry Oswald; McManus; Oswald; Walter McManus)

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November 6, 2003

Section: BUSINESS

GM WILL USE STRONGER ENGINES IN HYBRID SPORT UTILITY VEHICLES
GASOLINE-ELECTRIC CHEVROLET TAHOE, GMC YUKON TO IMPROVE FUEL ECONOMY BY AS
MUCH AS 35 PERCENT

John Porretto, Associated Press

DETROIT

General Motors Corp. will use stronger gasoline-electric hybrid engines than originally planned on its two full-size sport utility vehicles, the Chevrolet Tahoe and GMC Yukon, GM sources said Wednesday.

One of the sources, who spoke to the Associated Press on condition of anonymity, said the automaker plans to begin offering hybrid engines on the two SUVs in 2007 that improve fuel economy by as much as 35 percent.

The hybrid system originally planned for the Tahoe and Yukon would have boosted fuel economy by 15 to 20 percent, the company said in January when it announced that hybrid engines would be offered in those models.

The world's largest automaker is expected to announce the additions to its hybrid program today.

GM and other automakers have invested billions of dollars to develop more ecologically friendly vehicles to meet stricter standards for emissions and fuel economy.

Hybrids draw power from two different energy sources, typically a gasoline or diesel engine combined with an electric motor. For now, the only versions available in the United States are small cars made by Honda Motor Co. and Toyota Motor Corp.

One of the biggest drawbacks for hybrids is they cost more than conventional cars, though buyers can qualify for a federal tax deduction and local tax incentives in some areas.

Walter **McManus**, executive director of global forecasting at J.D. Power and Associates, said GM's choice of the Tahoe and Yukon makes sense given the popularity and high-profit margin of SUVs in the United States.

In addition, "big SUVs and trucks are driven more miles than small cars and they burn more fuel," **McManus** said. "If

the goal is to save petroleum, the full-size pickups and SUVs are going to do that."

He added that a person who now spends an extra \$3,000 or so for a hybrid car may never make up that amount in fuel savings, "but it could be different with one of the larger vehicles."

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COMPANY: GENERAL MOTORS CORP; TOYOTA MOTOR CORP; TOYOTA MOTOR NORTH AMERICA INC; HONDA MOTOR CO LTD

NEWS SUBJECT: (Major Corporations (1MA93))

INDUSTRY: (Gasoline (1GA40); Oil (1OI41); Environmental (1EN24); Automotive Fuels (1AU95); Electric Vehicles (1EL48); Manufacturing (1MA74); Automotive Technology (1AU48); Transportation (1TR48); Automotive Environmental Initiatives (1AU68); Land Transportation (1LA43); Environmental Solutions (1EN90); Electric Utilities (1EL82); Engines & Turbines (1EN78); Automotive Models (1AU61); Downstream Oil (1DO72); Engineering (1EN73); Oil & Gas (1OI76); Passenger Transportation (1PA35); Utilities (1UT12); Automobiles (1AU45); Automotive (1AU29); Low Emission & No Emission Vehicles (1LO79))

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OTHER INDEXING: (CHEVROLET TAHOE; GENERAL MOTORS CORP; GM; GMC; HONDA MOTOR CO; HYBRID; TAHOE; TOYOTA MOTOR CORP; YUKON) (J.D. Power; McManus; Walter McManus)

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August 13, 2003

Auto Emissions Dispute Settled; Hybrid Vehicles Key to Ending Carmakers' Battle in Calif.

Peter Behr

Auto manufacturers and California regulators settled a dispute over the state's auto emissions rules yesterday in a vote of confidence for the future of hybrid vehicles that run on motor fuel and electricity. The lawsuits by General Motors Corp., DaimlerChrysler and Isuzu against the California Air Resources Board had created a challenge with national implications for the state's auto emissions regulations, the toughest in the country. The companies had won a federal ruling freezing proposed regulations mandating the sale of about 100,000 low-pollution vehicles in the state, arguing that federal -- not state -- law should apply. The state had appealed.

The original goal of the 13-year-old California program was the introduction of battery-powered cars. Only a few thousand motorists were willing to accept the cars' limited power and range. But in the past two years there has been a surge in development of hybrid cars, led by Toyota and Honda, with U.S. automakers hurrying to catch up. Toyota's Prius model, the largest-selling hybrid, draws on battery power as it starts to move, then uses both gasoline and electricity as speed increases. It averages just under 50 miles per gallon of gasoline. In the next few years, hybrid versions of sedans, light trucks and sport-utility vehicles will appear. General Motors also was eager to end the suit to repair its image with environmental-conscious consumers, company officials said. "The first question we get is 'Why are you in court in California?'" said Elizabeth A. Lowery, GM's vice president for environment and energy. "We are hopeful that in moving forward to solutions . . . we're able to get more credit for things we're doing every day," she said. In April, the California board changed its policies to allow automakers to substitute hybrids for all-battery models in meeting the plan's goals, while giving companies more flexibility in the kinds of hybrids they produced. The new plan also encourages development of the next generation of vehicles powered by fuel cells running on hydrogen, a priority for the Bush administration. The goal is for 10 percent of sales to be low-emission vehicles by 2008, said Jerry Martin, spokesman for the California air board. This year, U.S. motorists are expected to buy 61,000 hybrids, up sharply from the 38,000 sold last year, said Walter **McManus**, auto analyst with J.D. Power and Associates. The firm projects that hybrid sales will hit 400,000 in 2008, about 5 percent of total sales. After months of negotiations over the April policy changes, the three car companies yesterday announced they would drop their lawsuits once the new policies became official. "It is recognition by the board that the pure battery electrics were not going to materialize and that hybrids and fuel cells are the wave of the future," said David Barthmus, GM's manager for California environment and energy issues. "We view this as a big victory for the California program," said David Doniger, a lawyer for the Natural Resources Defense Council in Washington. "It will speed up delivery of high-tech cars that clean the air and that people want." But price, and to a lesser extent performance, still are obstacles. Hybrids provide important public benefits by conserving fuel, and thereby reducing auto pollutants and greenhouse gas emissions, but those benefits aren't obvious to an individual car buyer, said David L. Greene, a fellow at Oak Ridge National Laboratory. "The consumers don't see that." He doubts many people will behave altruistically when they buy cars. "I don't think that much will happen

there." A hybrid costs \$2,000 to \$7,000 more than a comparable conventional vehicle, said **McManus**, while motorists will save \$1,000 in fuel bills over a decade because of improved mileage achieved by current hybrids. A federal tax deduction for hybrid purchasers closes only part of the gap, though Congress will consider proposals to increase the incentive. Otherwise, gasoline prices would have to increase to more than \$3 a gallon for some years to cause a major shift toward hybrids, **McManus** predicted. "The payback is a long time. It's a hard sell."

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COMPANY: ISUZU MOTORS LTD; DAIMLER AG; OAK RIDGE NATIONAL LABORATORY; HONDA MOTOR CO LTD; TOYOTA MOTOR CORP; MOTORS LIQUIDATION CO

NEWS SUBJECT: (Major Corporations (1MA93))

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